

## CHAPTER I

### INTRODUCTION

#### 1.0 GENERAL INTRODUCTION

The increase in conflicts around the globe coupled with shortage of funds and the need to be able to manage these crises has made it necessary to advocate methods for reducing the cost of UN's operations. Additionally, given that it costs about US\$3.2 billion to run UN peacekeeping and peace-building operations annually (United Nations, 2005), this staggering amount used to provide services, facilities, support staff can be reduced by outsourcing support function/services and facilities attached to these operations.

Outsourcing of non-core functions is a viable business strategy for any company, including the United Nations, although it has non-profit objectives and therefore has limited experience in and use for outsourcing criteria developed for commercial enterprises. Outsourcing has become necessary in a bid to maximise limited resources due to the unavailability or inadequacy of funds for peacekeeping operations. Presently, outsourcing by UN peacekeeping operations is in the infancy stage. Its major outsourcing experience is in the form of providing troops for peacekeeping operations, since the organization does not have a standing military army or police force. Apart from outsourcing peacekeeping, it is also vital to outsource the support functions of the operations. This would ensure more effective, efficient, and expeditiously managed peacekeeping operations. Outsourcing should be used as a reform strategy to save cost and make the organization more efficient.

Although reforming the UN has been a priority with every Secretary-General, what stands out clearly is that it has failed to achieve its objective (Abdul Aziz, 2007). Klareskov and Helgason (2005) added that considering the limited success the UN has had in its reforms; reforming human resources by strengthening pay, recruitment, and promotion systems would make the reformation process simpler and more effective.

This staffing problem could easily be resolved through outsourcing since it provides access to a larger efficient talent pool and a sustainable source of cheaper skills and services that can be bought on a flexible on-demand basis (Buligi and Ciora, 2008 and Booty, 2009).

Outsourcing has become one of the most powerful, organization-shaping management tools available today and organizations' leaders now measure success by outcomes, effectiveness, as well as member and customer satisfaction (Petrick, 1996). Leading global firms and even non-profit making organizations have cashed in on the new trend and now use outsourcing as a primary business solution tool. However, the non-profit-making organizations use outsourcing as a tool to maximise efficiency. By outsourcing as many non-core functions and activities as possible they are able to reduce costs of operations and create funds for vital, but non-funded activities. However, this strategy requires that top management possess a variety of negotiation and relationship management skills, as well as strategic planning expertise, which is lacking in some non-profit making organizations such as the UN (Goolsby, 2002b).

Barrett and Baldry (2003) defined outsourcing as a process by which a user employs a separate organization (provider) under a contract to perform a function which could alternatively have been performed by in-house staff. Outsourcing is also an approach by which organizations contract out functions to specialised and efficient service providers who become valued business partners making strategic use of outside resources to perform activities traditionally handled by internal staff and resources (Cloete, 2002). Furthermore, Grossman & Helpman (2003) stated that outsourcing means more than just the purchase of raw materials and standardized intermediate goods. It means finding a partner with which a firm can establish a bilateral relationship and having the partner undertake relationship-specific investments so that it becomes able to produce goods or services that fit the firm's particular needs. Often, but not always, the bilateral relationship is governed by a contract, but even in those cases the legal document does not ensure that the partners will conduct the promised activities with the same care that the firm would use itself if it were to perform the tasks.

Outsourcing is usually done in anticipation of better quality, lower rates and, in a sense, getting an edge over one's competitor. Outsourcing today is an increasingly common way of doing business (Booty, 2009). The private sector experience has shown that specialised service providers are typically able to deliver such services with comparable or better quality, and often at lower costs, than in-house providers. Because of the streamlining of the firms' facilities, effective outsourcing also allows them to expand their market share, pursue new strategic directions, and improve overall competitive advantage. As a result, organizations in both the private and public sector have several incentives to explore their outsourcing options (Eger *et al*, 2002).

With costs as the main motivating factor for organizations considering outsourcing, the practice has become a solution for many firms and providers as a formula for financial stability through increased revenue, long-term customers and sustained profitability. Inherently outsourcing costs cutting initiatives can produce direct cost and a reduction of back-office functions (Goolsby, 2002a, Buligiu and Ciora, 2008 and Harland *et al*, 2005). Osborne and Gambler (1993) and Eger *et al* (2002) added that outsourcing has also grown tremendously popular as a means of reducing costs, increasing efficiency, and improving overall quality of service in public sector organizations. This is based on its proven record of success in many different contexts. Throughout the development of this new perspective, a great deal has been learnt from observing private sector outsourcing practices and their applicability within the public sector which has provided a number of important suggestions, precautions, and some extensive models to guide the outsourcing decision-making process.

According to Harland *et al* (2005), there are many other motivations for outsourcing, beyond short-term cost savings. For example, it can enable firms to focus on "core" activities (Prahalad and Hamel, 1990, Hendry, 1995 and Arnold, 2000). The concept of "focus" originates in operations strategy literature. Skinner (1969) identified the benefits of concentrating an operation on a small, manageable, number of tasks at which the operation becomes excellent. Some observe that as suppliers may be significantly more advanced; outsourcing to them allows organizations to exploit their more advanced technologies (Lamming, 1993, Venkatesan, 1992 and Greaver, 1999). Others suggest that outsourcing improves flexibility to meet changing business

conditions, demand for products, services and technologies (Greaver, 1999), by creating smaller and more flexible workforces (Patterson and Pinch, 1995). Other outcomes are less obvious. Kerr and Radford (1994) claim that outsourcing helped to undermine the power of trade unions dominating the UK public sector workforce. Greaver (1999) highlighted the potential benefits of improving credibility and image by associating with superior providers. Short-term costs savings can provide clear evidence.

Domberger and Hall (1996) and Boston (1996) reviewed contracting out by the public sector in New Zealand and Australia. In New Zealand (Boston, 1996, p. 107) and some sectors of Australian government (Domberger and Hall, 1996, p. 135) public sector organizations were required to seek best value for money and encouraged, but not compelled, to use competitive tendering and contracting out. However, public sector outsourcing has earned a mixed record of success, failure, praise, and criticism (Klareskov and Helgason, 2005).

Many private sector organizations have outsourced support services such as catering, cleaning, maintenance and security (Bailey *et al.*, 2002). There is now a tendency for these arrangements to be made under one “facilities management” contract. Rao and Young (1994) note that most large multi-nationals use third party logistics providers. Harland *et al* (2005) advised that outsourcing is used not just for support services but also for activities “closer to core”. Many studies reveal that automotive manufacturers have outsourced component manufacturing that was previously conducted in-house. As suppliers developed capabilities, they may take on the role of “systems integrators” enabling the vehicle producer to source entire sub-systems of an automobile, such as the power-train, to one supplier (Lamming, 1993). The definitional problem remains, however, since outsourcing organizations typically retain the ability to in-source the activity, or to subcontract only part of the business. For example, in 1997, Roberto Testore, head of Fiat Automotive, identified his company’s “core competences” as styling and engines. Both, however, were conducted partly by subcontractors (e.g. Pininfarina conducted major parts of Fiat’s styling). Evidence exists of outsourcing relating to core activities in the public sector. For example, Cheesley (1997) found that, since 1993, competitive tendering had been extended by UK hospital trusts and

health authorities to clinical support services, e.g. provision of sterile supplies and patient appliances, and parts of occupational health, pathology, radiology, and pharmacy services. It appears, therefore, that motivation for outsourcing may be relevant to services viewed as “core” as well as “non-core”.

Harland *et al* (2005) further indicated that there is a lack of guidance on how organizations should decide how much to outsource. Outsourcing a complete activity may remove all internal competence, skills and learning relating to performing that activity, thereby making subsequent in-sourcing problematic. Naturally, it is possible to retain part of the activities in-house. This might be done in order to retain skills and competencies, to provide knowledge of that market and to reduce potential threats from service providers through the presence of internal competition.

On managing outsourcing relationships, Harland *et al* (2005) advised that outsource relationships are likely to be medium to long term, collaborative arrangements with service level agreements (perhaps two-way) and some form of relationship assessment. Skills and competencies required to formulate and manage these relationships may be very different from those needed for traditional forms of contract. This has been highlighted by Lonsdale (1999) and Cox (1996) while the broad lack of management approaches was revealed by Marshall (2001). Guidance and contract frameworks could be provided, especially in the public sector, to prevent an array of varying specifications of contract being placed with the same outsource provider. It is not only necessary to develop new skills for the management of outsource relationships but also to learn how to manage the capability to conduct them.

Some organizations do not achieve the expected benefits from outsourcing. For example, a report quoted in Lonsdale (1999) and McIvor (2000) suggested only 5 per cent of companies’ surveyed achieved significant benefits from outsourcing. Lonsdale (1999) and Cox (1996) highlight reasons for this: focusing on achieving short-term benefits; lack of formal outsource decision-making processes, including medium and long-term cost-benefit analyses; increased complexity in the total supply network. In a survey of outsourcing in Australia, Beaumont and Sohal (2004) found a further impediment to outsourcing was formulating and quantifying requirements.

In the public sector there are other concerns. Concerns relate to the number of jobs lost to the private sector (Kerr and Radford, 1994). Giddens (1979) argued that structuration of organizational fields would lead to bureaucratisation and homogeneity. DiMaggio and Powell (1983) agree, explaining that structuration occurs as a result of the activities of a diverse set of organizations; creeping privatisation and job losses might be unintended consequences of diverse, individual, organizations' actions. The approach focuses on social practices ordered across space and time. (Wikipedia, 2010).

Bettis *et al.* (1992) identified unintended consequences for the US economy of outsourcing in private sectors, such as automotive and computers, where US organizations were outsourcing component manufacture to Japan. Such concerns stimulate interest in “strategic outsourcing” (Alexander and Young, 1996) and in the risks and limitations in public and private sectors, including “over-outsourcing” (Hendry, 1995; Hood, 1997; Boston, 1996; Patterson and Pinch, 1995). Elsewhere, the impact of outsourcing on quality is highlighted as a cause for concern, for example in the USA (Seidenstat, 1996, p. 470) and Australia (Quiggin, 1996, p. 52). Marshall (2001) concluded that insufficient attention had been paid in general to the management of the outsourced activity and that outsourcers do not receive guidance on how to approach the task.

Hood (1997) argued that the extent of outsourcing in the public sector should relate to the culture of the state; consumerist cultures may find outsourcing of core public sector services more comfortable than less consumerist states. Similarly different levels and types of outsourcing might fit better in the USA than in parts of Europe. Proponents of outsourcing deploy primarily economic arguments; opponents focus on social consequences of outsourcing, making it difficult to compare benefits and costs. Strategic management and purchasing and supply literatures focus on potential risks and benefits to individual organizations (Sharpe, 1997; Hendry, 1995; Earl, 1996; Kakabadse and Kakabadse, 2000) and the outsourcing process (McFarlan and Nolan, 1995; Krause et al., 1998; Gunasekaran and Ngai, 2005).

It is noted above that outsourcing is an ideal business approach through which an organization such as the UN should be able to exploit their core business expertise by

being flexible and capable of rapid change. Outsourcing should enable the UN to overcome intrinsic failings and inefficiencies associated with performing tangential activities in-house, including inexperienced staff, which often result in poor economies of scale and lack of flexibility (Burden and Haylett, 2000). The thesis will identify outsourcing criteria applicable to the UN which will form the basis for the development of an outsourcing scorecard. The scorecard model should assist UN decision-maker in identifying functions and services with outsourcing potentials.

## 1.1 The Decision to Outsource

Making the right decision should come from a basic understanding of an organization's aims, objectives and requirements as well as their vision. Therefore achieving lower cost is of little significance if the principal goals are not attained. In stressing, the importance of decision-making Barrett & Baldy (2003) stated that the effectiveness of decisions is determined predominantly by the quality of the decision-making process used to generate it and it is usually best for top management to define the decision-making model to be adopted.

According to Harland *et al* (2005), one of the objectives of outsourcing is to relieve organizations of the constraints of cultures, established attitudes and taboos, providing fresh ideas and creativity for new opportunities. However, the most significant risks lie in the need to develop new management competencies, capabilities and decision-making processes. These include decisions on which activities should remain within the organization and which outsourced, whether all or part of the activity should be outsourced, and how to manage relationships rather than internal functions and processes. Mistakes in identifying core and non-core activities can lead organizations to outsource their competitive advantages. However, what is core one day may not be so the next. Moreover, once organizational competence is lost, it is difficult to rebuild. There is a difficult decision regarding how "close to core" outsourcing should be. Some organizations choose to retain some capability and capacity in-house and outsource part of the activity. Failure to manage outsourcing relationships properly, perhaps through service level agreements, may reduce customer service, levels of control and contact with customers. The assessment of costs of "make or outsource"

should include the additional cost burden of managing the outsource relationships (Harland *et al*, 2005).

Outsourcing or in-sourcing decision should be based on a solid business case analysis of alternatives. When deciding whether to outsource, Bendor-Samuel (2001b) recommended that organizations should first assess the value outsourcing can generate, while Alexander (1996) indicated that getting value through the application of incentives, quality management through partnership outsourcing should be the main goal. Swindon (1998) and M2 presswire, (2003) cautioned against overzealous adoption of private sector practices in public management. Osborne & Gaebler (1993) further suggested that solutions that work for the private sector may not necessarily work for non-profit making organizations. Cloete (2002) was of the view that an outsourcing decision is driven by the benefits and risks of outsourcing therefore, proper care must be taken to ensure that the right decision is reached. Bragg (2006) added that certain risks must be taken into consideration and mitigated, while Patterson (2005) mentioned that the application of formalized risk management will reduce the risk exposure. Hence, risk identification is essential in outsourcing decision-making.

Harland *et al* (2005) added that more risks are associated with outsourcing in the public sector than in the private sector. Public sectors are intended to safeguard services for the wellbeing of the public where the commercialism, fragmentation and lack of regulation of the private sector may act to the detriment of citizens and taxpayers. Swindon (1998) adjudges that governments are about serving the public and therefore outsourcing of services by governments should be about improving efficiency and effectiveness and not profit. Osborne and Gaebler (1993) also agreed with Swindon (1988) and further stressed that the private sector exist to make profit, while governments should provide services which makes them facilitators, planners and policy makers, not providers of services. Unchecked outsourcing within public sectors may create problems. Firstly, outsourcing reduces government control. Second, it creates powerful players who assimilate many independently arranged outsourcing contracts, gaining leverage and power over the sector. Third, it can worsen employment patterns in a sector, reducing consistency of training and development,



impacting on skill and knowledge levels under government guidance. Fourth, it can weaken some public sector stakeholders (e.g. politicians and trade unions) who influence public sector activities but have more difficulty influencing private sector outsourcing organizations. Osborne and Gaebler (1993) concluded by suggesting that solutions that work for the private sector may not necessarily work for government.

According to Buligiu and Ciora (2008), the decision to outsource is should be taken at a strategic level and normally requires board approval. Outsourcing is the divestiture of a business function involving the transfer of people and the sale of assets to the supplier. The process begins with the client identifying what is to be outsourced and building a business case to justify the decision. Only once a high level business case has been established for the scope of services will a search begin to choose an outsourcing partner. In determining outsourcing needs, Siegel, (2000) and Goldsmith (1989) agreed that the immediate objective of management is to identify areas where the firm can match its needs with the essential competencies of potential service providers. It is important to identify and connect core competencies when making the decision to outsource. It is also considered important that outsourcing should provide a model for assessing public agencies core competencies and should examine the delivery modes available for the services being considered for outsourcing. The reason is, unless a qualified provider can be identified for a specific function, there may be no value added in considering an outsourcing plan for that function.

Once the decision has been made to outsource, a number of other concerns come up regarding the transition toward outsourcing. The emphasis should be on the importance of establishing a plan for moving forward on the outsourcing decision. The chosen approach to outsourcing should evaluate costs and potential process improvements that can be gained from using service providers. Furthermore, to ensure the implementation of best practice strategies with service providers, successful partnership with them is essential. It is also vital to know whether the outsourcing relationship will reduce costs and improve efficiency in the organization. An organization should also consider using an external expert to negotiate the contract and in choosing the service provider, the point of contact should be an internal staff. Also, the scope of service(s) to be performed and the duration of the outsourcing

agreement should be clearly stated in the statement/scope of works including a dispute resolution clause (Bragg, 2006).

In conclusion, it was noted that the benefits of outsourcing are variable and depend on the nature and situation of an organization. Therefore, the decision to outsource non-core activities of the UN and its peacekeeping operations should be arrived at by answering a number of important questions about the organizations core competencies and policy goals, coupled with the availability of service providers, contract negotiations, and other considerations. The extensive experience and practices of the private and public sector should be compared with the political legal and economic considerations that must be made when applying these lessons to the UN.

#### 1.1.1 Decision-making Criteria

In identifying outsourcing criteria, it is necessary to recognize whether or not outsourcing is appropriate. To achieve this, several background questions must be answered. For example, once it has been determined that the use of external resources may be an option that would meet business needs, thereafter a thorough cost-benefit analysis should be conducted because it considers specific cost-benefit criteria (Hamer, 1988 & Longworth, 2005). It is also important to provide a simple criteria template for an outsourcing versus in-sourcing cost-benefit analysis. In doing this, criteria, priorities and weights must be determined for each project depending on its individual circumstances (Eger *et al*, 2002).

Since the success or failure of a project depends on the choice of decision made, therefore, before embarking on an outsourcing engagement, several criteria must be addressed because proper decision criteria aid in prioritizing and developing successful programmes and projects (Deuser, 1996). The challenge is to integrate such diverse criteria to arrive at the best decision (Reid & Christensen, 1994). Most importantly, decision-making criteria should be flexible, realistic and applied on a case by case basis. These various criteria, derived from several sources and commonalities provide

important indicators, categories, attributes, and standards for the development of an outsourcing decision-making scorecard (Eger et al, 2002).

Due to its unique nature and having non-profit objectives, outsourcing criteria developed for public and commercial enterprises would not be adequate for developing an outsourcing decision-making scorecard for the UN. Therefore, existing outsourcing criteria for private and public enterprises would be customized to address the outsourcing needs of the UN.

### 1.1.2 Outsourcing Scorecard

The traditional focus of an outsourcing scorecard would be insufficient as a decision-making tool for UN managers in making decisions on whether or not to outsource. Consequently a more broad-based scorecard would be required. In developing the scorecard for the UN, the traditional scorecard model is adapted and customised to create an innovative scorecard that is tailored to the outsourcing needs of the UN. Therefore, the scorecard developed will have similar attributes to outsourcing scorecard models for private and public sector enterprises but will be modified to meet the unique needs of the UN. However, the fundamental assumptions and postulates of existing models will not be altered. To ensure completeness of the scorecard for the purpose of the UN, each scorecard theme will be expanded to encompass additional requirements for the UN and its peacekeeping operations.

## 1.2 CONCLUSION

UN approved budgets can no longer meet the running costs of peacekeeping operations. Therefore, to maximise available funds, the UN should consider outsourcing as a management tool to improve services and reduce costs. Outsourcing will grow to be an accepted way of doing business as both the private sector and public sector. However, non-profit making organizations such as the UN should focus more on customer service and cost/budget reductions. As the concept becomes more accepted and outsourcing opportunities expand, the process will be more clearly outlined. Outsourcing of support functions is an attractive option for many organizations. Outsourcing should be an integral part of an organization's overall

business strategy; however it should involve senior executives and key staff. The rationale for pursuing outsourcing options should involves the strategic, financial and technological benefits to be gained. A number of problems may also be encountered related to the service quality, its costs, or its overall effect on business operations. However, a thorough risk assessment of the factors involved in these potential problems is a useful tool for avoiding them in the first place. While there are no perfect deals, a number of measures can mitigate the risks of outsourcing (Buligiu and Ciora, 2008). A well thought-out strategy, due care in the service provider selection, a carefully drafted contract as well a proper monitoring of the services delivered under the outsourcing contract will help the UN reap the benefits it expects.

Johnston and Romzek (1999), Best et al (2003) and Sullivan and Ngwenyama (2005) added that although outsourcing has general advantages, it also has a number of uniquely public sector concerns that may extinguish outsourcing's advantages or in some cases even put the public at risk. Therefore caution should be taken when considering outsourcing ventures, as well as attention to accountability, economies of scale, competition and risk such that the cost of monitoring outsourced services' contracts does not eliminate any benefit derived from the reform. Futhermore, Best *et al* (2003); Sullivan and Ngwenyama (2005) and Grossman and Helpman (2003) agreed that though there are disadvantages associated with outsourcing, such as risk to intellectual property protection and trust, other factors such as increase international trade and globalisation, and freer communication and transparency may be mitigating influences, however, it appears that the advantages are more significant.

In conclusion, the thesis develops suitable decision-making scorecard from criteria identified in the research to guide the UN in identifying potential services that can be outsourced successfully through a survey of best practices outsourcing examples in private sector enterprises. The thesis focuses on the following four principal efforts:

- Provide a general introduction into outsourcing with emphasis on using outsourcing as a viable reform strategy for the UN since the being non-profit making, the UN does not have the criteria to judge its outsourcing decisions.

- Provide a literature review relative to outsourcing decisions-making and its application in the UN and its peacekeeping operations, choosing an outsourcing provider, and the development of decision-making criteria and scorecard; discusses the use of private security organizations for traditional UN peacekeeping role as an outsourcing strategy to make peacekeeping more cost-effective and efficient;
- Investigate private and public sector enterprises and service providers to assess outsourcing activities from the perspective of these organizations in order to gain a better understanding of outsourcing and how it can be successfully applied to the UN to attain all the advantages; and
- Identify and evaluate criteria from the research which forms the basis for the development of an outsourcing scorecard model for the UN.

### **1.3 THE PROBLEM AND ITS SETTING**

#### **1.3.1 The Statement of the Problem**

Being non-profit making, the UN and its peacekeeping operations does not have the criteria to judge its outsourcing decisions. Using private and public sector outsourcing experience, the thesis proposes to identify and evaluate outsourcing decision-making criteria for the UN which forms the basis for the development an outsourcing scorecard for identifying services that can be outsourced successfully.

### **1.4 AIMS AND OBJECTIVES OF THE THESIS**

The objective of the thesis is to translate the private sector's extensive outsourcing experience into a scorecard for the UN from criteria identified in the research. The scorecard can serve as a decision-making tool for the UN in identifying services that can be outsourced successfully. The developed scorecard should provide the UN with a number of benefits, such as maximization of efficiency and savings in costs by reducing costs of operations and creating funds for vital, but non-funded activities. The scorecard may be useful to similar organizations.

## **1.5 THE HYPOTHESIS**

### **1.5.1 The Research Hypothesis**

It is possible to develop a scorecard for the UN and its peacekeeping operations outsourcing needs based on the non-profit objectives and unique nature the UN from a modification of existing outsourcing model of the private and public sector without altering the fundamental assumptions and postulates of the existing model.

## **1.6 DELIMITATION**

The outsourcing decision-making criteria and outsourcing scorecard are limited to the UN outsourcing requirements.

## **1.7 THE ASSUMPTION**

The private sector manufacturing firms and the service providers surveyed are presumed as having outsourcing best practices.

## **1.8 THE IMPORTANCE OF THE THESIS**

Given that it costs about US\$3.2 billion to run UN peacekeeping operations annually (United Nations, 2005), the thesis derives appropriate outsourcing decision-making criteria which form the basis for the development of a scorecard for identifying services that can be outsourced successfully. By outsourcing as many non-core functions and activities as possible they should be able to the reduce costs of operations and create funds for vital, but non-funded activities. Additionally, the thesis examines cost-effective and efficient alternative to UN peacekeepers.

The thesis presents the first large-scale survey of outsourcing criteria applicable to the UN and should be useful to similar organizations. Additionally, it develops the first outsourcing scorecard to guide the UN and similar organizations in identifying services that can be outsourced successfully.

## 1.9 DEFINITION OF TERMS

This section contains the lists of terms used in the thesis:

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Outsourcing	<ul style="list-style-type: none"> <li>• A process by which a user employs a separate organization (the supplier) under a contract to perform a function which could have been performed by in-house staff (Cloete, 2002). A practice where a service is commissioned from a provider, usually under the term of a formal contractual arrangement based upon terms and conditions derived from a service level agreement (Barrett and Baldry, 2003).</li> </ul>
UN:	United Nations
DPKO	Department of Peace Keeping Operations of the United Nations Secretariat
SC	Security Council
GA	General Assembly
Mission	United Nations Peacekeeping Operation
SRSR	Special Representative of the Secretary General
DSRSG	Deputy Special Representative of the Secretary General
DAO	Director of Administration
CISS	Chief Integrated Support Services
CAS	Chief Administrative Services
FC	Force Commander
NGOs	Non Governmental Organizations

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## CHAPTER II

### LITERATURE REVIEW

#### 2.0 GENERAL INTRODUCTION

In the early 1970s, inflation became a threatening issue. Oil embargo brought fuel shortages. Not only did these shortages spur a dramatic increase in the cost of material but also in the financing of all endeavours leading to capital flight as well as the deregulation of monopolies. This economic stagnation had a rippling effect on nations' ability to provide resources for their people. Such inability, when combined with natural and other economic disasters, meant nations were unable to feed themselves and had to depend on donor nations for survival. Paying their dues and contributing towards humanitarian and other good causes became the least of their worries. Therefore, organization that depended on funding from these nations had to look elsewhere and/or identify solutions to maximised available resources. Therefore, higher work expectations have led to a search for alternatives, a need to plan for the long term and to be more competitive and or resourceful. A result of this business crisis was the evolutionary management of scarce resources whereby people began thinking about new and smarter ways of optimizing available resources to attain the same or higher level of efficiency and effectiveness (Rondeau *et al*, 2006).

Since then, organizations have followed the corporate model of increasingly handling more tasks in-house, forcing organizations to tighten their belts and downsize thus aggressively reshaping and fundamentally changing the way business is carried out. In the restructuring of enterprise, outsourcing became one of the tools for re-engineering the process. Thus business process re-engineering radically changed the distribution of work within and outside the organization and made outsourcing a strategic element that reinforced and complemented strategic plans to build core competence (Best *et al* (2003).

These organizations now faced with the tough issue of downsizing have realised that they need a measurable solution that could easily shrink or grow with their needs.



According to Janssen (2002) this trend is bound to continue for some time to come and would imply that:

- Outsourcing providers would be under a lot of pressure to distinguish them in the marketplace. They can distinguish themselves by specialising in different forms of outsourcing and by gaining deep vertical market knowledge as well as by developing technological innovation that creates real competitive advantage for buyers.
- The outsourcing market would continue to grow in importance with bigger providers purchasing smaller ones;
- Outsourcing organizations would focus more on value creation rather than on cost savings; and
- More outsourcing organizations would transform from outsourcing of individual functions/activities to outsourcing entire functions/activities of these organizations in order to participate in that specific growth market.

In the realms of business management, where new business practices often become fads very rapidly, outsourcing seems to have established itself as a sustainable practice. The increasing scale and complexity of projects demands specialized expertise that is best acquired through outsourcing. At the same time, outsourcing encourages specialization and so contributes to self proliferation and sustainability. At the firm and enterprise level, the pressure to become cost effective through structural streaming, sharpened strategic focus and development of core competencies in order to compete in an increasing competitive global environment, make outsourcing an ideal medium for attain such attributes (Best *et al.* 2003)

Inevitably, unprecedented levels of excellence and profitability have resulted from outsourcing efforts. However, in some case as outlined above, downsizing meant there was work still unattended to that had to be done, and that's when the trend of outsourcing picked up momentum. For organizations, outsourcing became the new way of accomplishing tasks (Rondeau *et al.*, 2006).

The outsourcing industry has reached an important crossroads in its development. It recently matured from being a commodity supplier of services sought by organizations which simply want to cut costs, to being a provider of value added operations that free an organization's executives to concentrate on core businesses. Furthermore, Tracey *et al* (1998) concurs that outsourcing enables organizations to concentrate on core business and provided other causes such as:

- Access world class capabilities;
- Provide flexible delivery based on needs;
- Act as catalyst for change;
- Reduce or control costs; and
- Improve reporting methods

Outsourcing needs of UN peacekeeping operations have similar characteristics to those in the public sector and the outsourcing challenges facing them are similar to private sector challenges. These include, but are not limited to:

- Large information networks;
- Expanding service provider base;
- Complex inventory of equipment;
- Maintenance functions specific to unique fleets of equipment;
- Intensive information reporting;
- Shrinking work forces;
- Shortened turn-around times;
- Smaller budgets;
- More customization; and
- Unique customer demands

Outsourcing has come to be viewed as a strategic activity in the redefinition of core competence for many organizations that sought to reposition their business scope in an increasing competitive business environment (Best *et al*, 2003).

Eger *et al* (2002) defined outsourcing as the transfer or delegation to an external service provider or a supplier the operation and day-to-day management or ownership of a business process. This is usually done in anticipation of better quality, lower rates and in a sense getting an edge over one's competitor(s). Buligiu and Ciora (2008) agree with Eger *et al* (2002) and states that outsourcing involves the transfer of the management and/or day-to-day execution of an entire business function to an external service provider. The client organization and the supplier enter into a contractual agreement that defines the transferred services. Under the agreement the supplier acquires the means of production in the form of a transfer of people, assets and other resources from the client. The client agrees to procure the services from the supplier for the term of the contract.

Sprague, (2006) differentiated between outsourcing and in-sourcing. She advised that outsourcing involves allocating or relocating business activities (both service and/or manufacturing activities) from an internal source to an external source. Conversely, insourcing can be defined as internal sourcing of business activities. So, insourcing can be viewed as an allocation or reallocation of resources internally within the same organization, even if the allocation is in differing geographic locations.

Barrett and Baldry (2003) described outsourcing as a practice where a service is commissioned from a provider, usually under the term of a formal contractual arrangement based upon terms and conditions derived from a service level agreement. The service level agreement builds on the service specification by amplifying, in practical terms, the obligations of each party. Technical and quality standards will usually be defined in relation to industry standards or manufacturer's recommendations, whereas performance will be related to the specific requirements of stakeholders, that is, frequency of activity and response times to call-outs (Atkin and Brooks, 2005). It is important that all stakeholders are identified and their requirements understood, with specifications and service levels aligned to their needs. While it may not always be possible, given the constraints that may be imposed on the outsourced team, to satisfy all specific requirements, the needs of stakeholders can be ranked according to their benefit to the business to ensure that the more significant ones are met (Atkin and Brooks, 2005). There may be several of these contractual relationships operating in parallel for a range of services from a variety of providers

but the responsibility of monitoring and control should remain with the outsourcing organization.

According to Harland *et al* (2005), outsourcing changes the structure of sectors, providing opportunities for focused, niche players to enter. For example, the growth of specialist biotech and niche finance players may be attributed to the creation and seizing of opportunities that have impacted on sector structure. The specialist service providers enable other players in the sector to focus on their core, improving the products and services they offer. By providing a wide range of services, service providers can offer a “one stop shop” expertise. Some transport companies have created market opportunities by offering a complete logistics package including stores design and management, logistics consultancy and customer call centres. Players within sectors where outsourcing becomes the norm benefit from improved financial performance through cost reduction and reduced asset investment, yielding higher return on investment, attracting more investment to the sector to develop customer markets. Public sectors might shift policy from tactical control to strategic planning. Healthcare, for example, might focus on preventive care rather than cures.

Additionally, outsourcing allows organizations provide better customer focus, flexing and changing offerings and processes to meet changing markets. This is particularly beneficial to larger, more mature organizations whose strong, hierarchical structures make them less agile. For such organizations, re-engineering business processes to improve flow across functions is difficult: outsourcing enables “opting out” from complex internal organizational change.

According to Eger *et al* (2002), the benefits of outsourcing are variable, dependent upon the nature and situation of an organization. Buligiu and Ciora (2008) added that organizations that outsource are seeking to realize benefits or address the following issues:

- *Cost savings.* The lowering of the overall cost of the service to the business. This will involve reducing the scope, defining quality levels, re-pricing, re-negotiation, cost re-structuring;

- *Cost restructuring.* Operating leverage is a measure that compares fixed costs to variable costs. Outsourcing changes the balance of this ratio by offering a move from fixed to variable cost and also by making variable costs more predictable;
- *Improve quality.* Achieve a step change in quality through contracting out the service with a new Service Level Agreement;
- *Knowledge.* Access to intellectual property and wider experience and knowledge;
- *Contract.* Services will be provided to a legally binding contract with financial penalties and legal redress. This is not the case with internal services;
- *Operational expertise.* Access to operational best practice that would be too difficult or time consuming to develop in-house;
- *Staffing issues.* Access to a larger talent pool and a sustainable source of skills.
- *Capacity management.* An improved method of capacity management of services and technology where the risk in providing the excess capacity is borne by the supplier;
- *Reduce time to market.* The acceleration of the development or production of a product through the additional capability brought by the supplier;
- *Commodification.* The trend of standardizing business processes, IT Services and application services enabling businesses to intelligently buy at the right price. Allows a wide range of businesses access to services previously only available to large corporations; and
- *Risk management.* An approach to risk management for some types of risks is to partner with an outsourcer who is better able to provide the mitigation.
- *Customer Pressure.* Customers may see benefits in dealing with your company, but are not happy with the performance of certain elements of the business, which they may not see a solution to except through outsourcing.

Best *et al* (2003) defined outsourcing as the action “to obtain (goods, etc, especially component parts) by contract from a source outside an organization or area: to contract (work) out”. Eger *et al* (2002) came up with a more precise description of outsourcing which they described as “work done for a company by people other than the company’s full time employees.” A customer receives a service that performs a distinct business function that fits into the customer’s overall business operations.

Outsourcing which was first done in the data processing industry has over the time spread to other areas, including tele-messaging and call centres. Presently, many large organizations now outsource jobs such as billing, medical transcription, data entry and payroll processing, information technology, human resources, facilities and real estate management, and accounting, customer support and call centre functions like telemarketing, market research, medical transcription, tax preparation, manufacturing and engineering (Buligi and Ciora, 2008, Eger *et al*, 2002 and Drezner D, 2004). Most of these jobs are outsourced by first world nations like the United States of America (USA) and the United Kingdom (UK) to third world nations like India, Philippines, China, Malaysia and some eastern European countries. These jobs are handled by separate organizations that specialise in each service, and are often located overseas (State of Texas, Department of Information Resources, 1998).

The State of Texas, Department of Information Resources (1998) also added that outsourcing is the delegation of tasks or jobs from internal production to an external entity, such as a subcontractor. More recently it has come to mean the elimination of native staff for overseas staff, where salaries are lower. Outsourcing also includes the buying of goods and services instead of producing or providing them in-house. While outsourcing is not a completely new innovation, the shifts that have occurred recently are worth noting. As the need for e-learning moves higher up on the IT and corporate training agendas, organizations are now more likely to take on the IT management burden of implementing a learning management system.

According to Buligi and Ciora (2008), in today's environment, organizations must deal with rapid and regular changes, the performance demands of the e-economy, and pressure to deliver competitive functionality. To meet these challenges, organizations are increasingly considering outsourcing of their information systems activities as an attractive option. In fact, many organizations already use outsourcing in one form or another. Furthermore, outsourcing occurs when an organization contracts a service provider to perform a function instead of performing the function itself. The service provider could be a third party or another division or subsidiary of a single corporate entity. Increasingly, organizations are looking offshore for the means to minimize service costs and related taxes. Many times, the outsourcing decision results in a

transfer or sale of the information processing assets and the people who performed the in-house function to the service provider. Outsourcing is also a common option for start-up operations and for organizations entering new business lines. Rather than devoting time, energy and capital to the creation of processing services, organizations feel they can minimize the start-up time required to enter new markets by contracting a third party to provide those services immediately.

Outsourcing also means “contracting out”, that is, a process by which a user employs a separate organization (the supplier) under a contract to perform a function which could have been performed by in-house staff. This differentiates outsourcing from business relationships in which a buyer retains control of the process or, in other words, tells a supplier how to do the work. It is the transfer of ownership that defines outsourcing and often makes it such a challenging and painful process. In outsourcing, the buyer does not instruct the supplier how to perform the task but instead, focuses on communicating what results they wants to buy and leaves the process of accomplishing those results to the supplier (Cloete, 2002). Furthermore, outsourcing occurs when a firm subcontracts a business function to an outside supplier. According to Drezner, (2004), this practice has been common within the U.S. economy for some time.

This concept called outsourcing which involves taking internal company functions and paying an outside organization to handle them, is usually done to save money, improve quality or free company resources for other activities. Additionally, outsourcing offers the potential for value enhancement and is worth careful consideration since it enables workplace strategies to concentrate on core business with the view to increasing market share by not being distracted by other non-critical activities Best *et al* (2003).

Tracey *et al* (1998) highlighted the strategic importance of outsourcing in describing the management of workspace and services which it creates and maintains. This, he explained had always been neglected until some 12 year ago in the USA and UK. From then on the management of facilities became a key business issue and the profession and the outsourcing market started to develop to what it is today.

According to Best *et al* (2003), the genesis and proliferation of the practice of outsourcing appears to have been triggered by:

- The need for resources (intellectual as well as physical) not available within the traditional bounds of the organization
- The favourable transaction costs of employing “outside” resources
- The strategic advantages that ensue from the ability to focus on the development of core competencies

Tracey *et al* (1998) cited three reasons for the growth of outsourcing:

- Recession and Economy;
- Focus on core business; and
- Public sector policy.

The recession of the economies of USA and UK drove organizations to outsource in order to reduce costs and cut directly employed staff. Furthermore, with a change in government policies to privatise and use the private sector, organizations realised that they only needed to support their own core business and did not need to provide it (Tracey *et al*, 1998).

There are two principal types of outsourcing: “traditional” outsourcing and “green-field” outsourcing. In “traditional” outsourcing, employees of an enterprise cease to perform specific tasks to the enterprise and rather, tasks are identified that need to be performed and the employees are normally hired by a service provider. For example, outsourcing information technology may include a transfer of responsibility from management of data centres and networks (LAN, WAN, and telecommunications). In the field of facilities management, individuals acting as property managers might become employees of a facilities management company (Eger *et al*, 2002).

Outsourcing services can be mainly divided into technological services outsourcing and business process outsourcing. Business process outsourcing or re-engineering is defined as by Hammer and Champy (1993) as “the fundamental rethinking and radical



redesign of business processes to achieve dramatic improvements on critical, contemporary measures of performances, such as cost, quality, services and speed”. Technological service outsourcing comprises of:

- Web hosting;
- E-commerce: Business to Business (B2B), Business to Commerce (B2C), Commerce to Business (C2B);
- Web security and solutions;
- Telecommunications; and
- Website designing/development/maintenance

Business process outsourcing comprises of:

- Back office operations;
- Customer Relationship Management;
- Call Centres and telemarketing;
- Tele-servicing and product support;
- Payroll maintenance;
- Finance/ Accounting/ billing;
- Human Resources;
- Logistics Management;
- Supply Chain management; and
- Medical Transcription

In “Green-field” outsourcing, an enterprise changes its business processes without the hiring of its personnel by the service provider. For example, an enterprise might hire a start-up company to provide a new service, such as wireless remote computing, that was not previously managed internally. However, the type of outsourcing engagement required in the UN falls into both categories i.e. technological services outsourcing and business process outsourcing.

However, outsourcing is not always the right decision nor in the interest of an organization in the long term. For examples, it generally acknowledged that outsourcing leads to a transfer of expertise from the organization to others from where it then purchased back at a higher rate. If the quality of the services is not improved, then there is no gain as managerial supervision must still occur (Best *et al*, 2003).

The main business criticism of outsourcing is that it fails to realize the business value that the outsourcer promised the client. Some argue that the outsourcing of jobs (particularly off-shore) exploits the lower paid workers. However, a contrary view is that more people are employed and benefit from paid work (Buligiu and Ciora, 2008).

In the US, critics charge that the information revolution (especially the Internet) has accelerated the decimation of U.S. manufacturing and facilitated the outsourcing of service-sector jobs once considered safe, from backroom call centres to high-level software programming. (This concern feeds into the suspicion that U.S. corporations are exploiting globalization to fatten profits at the expense of workers.) They are right that offshore outsourcing deserves attention and that some measures to assist affected workers are called for. But if their exaggerated alarmism succeeds in provoking protectionist responses from lawmakers, it will do far more harm than good, to the U.S. economy and to American workers (Drezner, 2004).

Sullivan and Ngwenyama (2005) agreed that though outsourcing offers high potentials for cost savings and improved services, however, the risk of failure is also very high. The risk factors that must be mitigated include outsourcing lack of experience, opportunistic behaviours by the vendors and vendor's lack of experience (Sullivan and Ngwenyama, 2005).

Even in the political arena outsourcing is causing some concerns. The cause of the commotion is offshore outsourcing and the alleged migration of American jobs overseas. In 2004, Gregory Mankiw, the head of President George W. Bush's Council of Economic Advisers, observed that "outsourcing is just a new way of doing international trade," which makes it "a good thing?" However, Mankiw's comments

sparked a furore on both sides of the aisle. Speaker of the House Dennis Hastert, meanwhile, warned that “outsourcing can be a problem for American workers and the American economy.” The Democratic presidential candidate John Kerry then accused the Bush administration of wanting to export more jobs overseas and Senate Minority Leader Tom Daschle quipped, “If this is the administration's position, I think they owe an apology to every worker in America” (Drezner, 2004).

Therefore, before embarking on any outsourcing initiative, there are several potential problems which should be anticipated and evaluated. Many of these are concerned with the people affected by the change in operation; others are to do with changes in the business itself and the manner in which the business is undertaken (Booty, 2009).

These are:

- People issues
- Business change
- Process change

There is also a strong public opinion regarding outsourcing that outsourcing damages a local labour market. Since outsourcing is the transfer of the delivery of services which affects both jobs and individuals. Therefore, it is difficult to dispute that outsourcing has a detrimental effect on individuals who face job disruption and employment insecurity; however, its supporters believe that outsourcing should bring down prices, providing greater economic benefit to all (Buligiu and Ciora, 2008)

According to (Drezner D, 2004), Mankiw's statements on outsourcing are absolutely correct. The creation of new jobs overseas will eventually lead to more jobs and higher incomes in the United States. Because the economy and especially job growth is sluggish at the moment, commentators are attempting to draw a connection between offshore outsourcing and high unemployment. But believing that offshore outsourcing causes unemployment is the economic equivalent of believing that the sun revolves around the earth: intuitively compelling but clearly wrong.

Furthermore, Outsourcing is more than a simple purchase decision based upon economic or financial criteria. It is a strategic decision that encompasses the transfer of service delivery of selected activities to a third party and the establishment of a long-term relationship that can create new sources of value for an organization. Key to the understanding of outsourcing is that while service delivery has been transferred, accountability has not. Additionally, outsourced service delivery is, or should be, transparent to the users of the service and the customers of the organization (Lacity *et al* 1999).

Sullivan and Ngwenyama (2005) in their book on managing public sector outsourcing risk, suggested risk management strategies to deal with this potential outsourcing risk. While Earl (1996) identified the following as outsourcing risks that must be mitigated:

- Possibility of weak management
- Inexperience staff
- Business uncertainty
- Outdated technology skills
- Endemic uncertainty
- Hidden costs
- Lack of organizational learning
- Loss of innovative capacity
- Dangers of an eternal triangle
- Technological indivisibility
- Fuzzy focus

Earl (1996) however noted that these eleven outsourcing risks do not occur in every outsourcing decision. Conversely, they are not unusual or esoteric risk and some can be avoided or reduced by carefully selecting sourcing. However, the benefit of outsourcing maybe so great that the risk are worth managing or that he risks are so

manageable that the benefits are worth having. Therefore, a risk/return trade-off may become necessary. This logic could lead organizations to towards adopting some mix of selective or smart sourcing.

Best *et al* (2003) outlined the disadvantages and advantages of outsourcing

The disadvantages and potential problems include:

- Lack of an adequate supply of needed expertise; intellectual, trade or manufacturing capabilities must be available at the time they are required;
- Competitive advantages that arise from patents, copyrights and other proprietary processes are at risk from unscrupulous business associates. Therefore, intellectual property protection must be enforceable;
- The conditions that favour outsourcing, e.g., remoteness and rapid access, are not always conducive to the development and assessment of trust, yet trust is an essential element;
- The need for well thought out upfront specifications for the deliverables;
- Loss of quality control resulting from lack of direct influence and control over the resources used for the execution of the work; and
- Lack of leverage traditionally accrued by firms as a result of their position in the supply or demand chain whereby they can control the distribution of work or the allocation of assets and therefore exert influence for items such as discounted fees and accelerated response times

Advantages:

- Enables companies to re-examine their mission and strategic aspects of their activities based on organizational strengths and existing core competence;
- Allows companies to focus on the development of core competences and develop best-in-world expertise;
- Affords companies access to extramural expertise and diminishes the limiting effect of geographic barriers;

- Allows rapid response to problems by virtue of access to already available teams of experts;
- Promotes access to innovation by doing away with the risks and cost associated with the incubation and development of innovation;
- Capitalizes on potential synergies that develop in the collaborative environment fostered by outsourcing;
- Enables integration of services while affording single-point responsibility for the delivery of final products and services;
- Reduces production co-ordination and management issues, and reduces overhead and inventory costs and
- Usually reduces design and production times because of the expertise involved.

On international outsourcing, Spencer (2005) was of the view that the incentive to outsource is increased if component suppliers are more important in creating surplus than final-good producers. Additionally, he added that there are three primary explanations for a reliance on international outsourcing to procure specialized inputs, rather than domestic production through outsourcing or vertical integration:

- lower costs of foreign production;
- Improvements in foreign institutions or international communications;
- Reduced costs of international transactions, which is associated with globalization or greater integration in world markets.

The main source of lower costs is lower wages, but the effect of physical distance is also important. A low cost country should export a greater variety of intermediate goods to physically closer countries (Feenstra *et al*, 2005). Furthermore, a study has attempted to show that public controversies about outsourcing in the U.S. have much more to do with class and ethnic tensions within the U.S. itself, than with actual impacts of outsourcing (Whitten *et al*, 2006).

On the exportation of US jobs overseas in the name of outsourcing, Drezner, (2004) was of the opinion that there is no denying that the number of manufacturing jobs has fallen dramatically in recent years, but this has very little do with outsourcing and

almost everything to do with technological innovation. As with agriculture a century ago, productivity gains have outstripped demand, so fewer and fewer workers are needed for manufacturing. If outsourcing were in fact the chief cause of manufacturing losses, one would expect corresponding increases in manufacturing employment in developing countries. An Alliance Capital Management study of global manufacturing trends from 1995 to 2002, however, shows that this was not the case: the United States saw an 11 percent decrease in manufacturing employment over the course of those seven years; meanwhile, China saw a 15 percent decrease and Brazil a 20 percent decrease. Globally, the figure for manufacturing jobs lost was identical to the U.S. figure, 11 percent. The fact that global manufacturing output increased by 30 percent in that same period confirms that technology, not trade, is the primary cause for the decrease in factory jobs. A recent analysis of employment data from U.S. multinational corporations by the U.S. Department of Commerce reached the same conclusion

The thesis present the first large-scale survey of outsourcing criteria applicable to the UN and develop the first outsourcing scorecard to guide the UN in identifying services that can be outsourced successfully. Additionally, it provides recommendations on improving the effectiveness and efficiency of peacekeeping operations.

This literature review starts with an introduction into the UN and its peacekeeping operations. Comparisons of outsourcing practices in private and public sectors are highlighted and the advantages that outsourcing will bring to UN and its peacekeeping operations. The first section of this review thoroughly discusses the efficiency and cost-effectiveness of using private organizations/armies, standing armies and rapid deployment taskforce for peacekeeping functions as well as the need to make peacekeeping cost-effective and efficient. The second section discusses outsourcing and how the advantages can be applied to peacekeeping operations to make it more cost-effective.

The third section then continues with the outsourcing decision-making process and provides a number of criteria, and in some cases, full decision-making models to guide

this process. It addresses the initial step in the outsourcing process i.e. the reasons why the UN should choose to outsource peacekeeping operations and describes the function/services that should be outsourced. It also describes the decision to outsource whereby, in making the decision to outsource, the private sectors best practices are contrasted with legal, economic, and political considerations that must be made when applying these lessons to the UN and its peacekeeping operations. The importance of outsourcing governance to outsourcing success is highlighted and furthermore how the absence of outsourcing governance would cause a fundamental philosophical problem for outsourcing organizations is also stressed.

The fourth section highlights the functions of third party service providers and describes the type of service providers to be employed in outsourcing practices. The fifth section then considers the transition to outsourcing, specifically the process of choosing a service provider once an organization has decided to outsource. A number of important related considerations with regard to contractual issues, labour agreements, and other management issues are also considered here. The fifth section lays emphasis on methods by which both private and public sector organizations conduct analysis and evaluation of existing outsourcing agreements. Establishing decision-making criteria is discussed in the sixth section. Goals and objectives, and the development of strategy and programmes are critically analysed as they determine criteria to be utilised in a decision-making process. The final section highlights methods by which both private and public sector organizations develop decision-making criteria and scorecard necessary for successful outsourcing decision-making.

## 2.1 **OUTSOURCING MILITARY FUNCTIONS OF PEACEKEEPING OPERATIONS**

This section discusses the use of private security organizations or third party providers for traditional UN peacekeeping role as an outsourcing strategy to make peacekeeping more cost-effective and efficient and reviews problems associated with outsourcing the role.

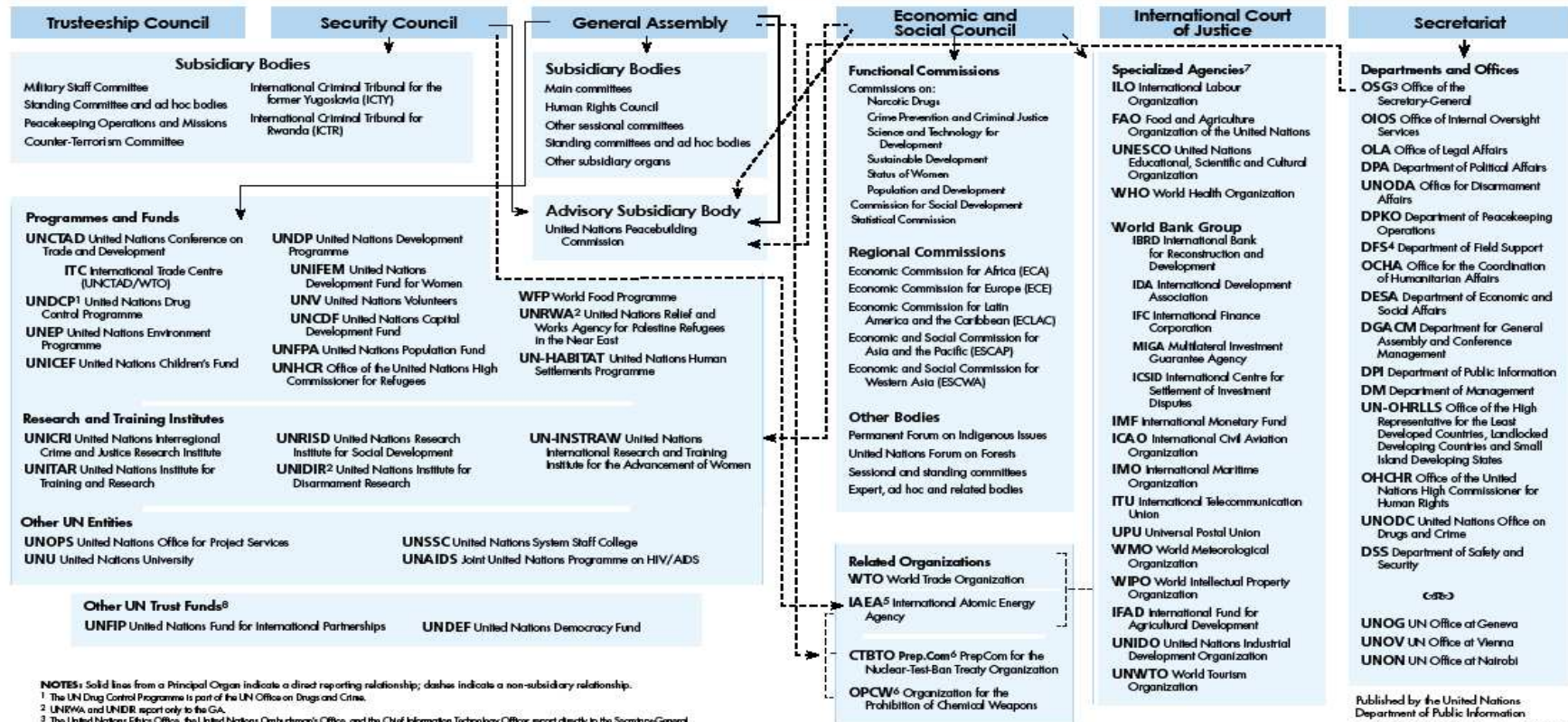
The UN and its peacekeeping operations are unique in the sense that it is involved in areas in the world where some multinational companies have never set foot.





# The United Nations System

## Principal Organs



NOTES: Solid lines from a Principal Organ indicate a direct reporting relationship; dashes indicate a non-subsidiary relationship.

- The UN Drug Control Programme is part of the UN Office on Drugs and Crime.
- UNRWA and UNIDIR report only to the GA.
- The United Nations Ethics Office, the United Nations Ombudsman's Office, and the Chief Information Technology Officer report directly to the Secretary-General.
- In an exceptional arrangement, the Under-Secretary-General for Field Support reports directly to the Under-Secretary-General for Peacekeeping Operations.
- IAEA reports to the Security Council and the General Assembly (IGA).
- The CTBTO Prep.Com and OPCW report to the GA.
- Specialized agencies are autonomous organizations working with the UN and each other through the coordinating machinery of the ECOSOC at the intergovernmental level, and through the Chief Executives Board for Coordination (CEB) at the inter-secretariat level.
- UNFIP is an autonomous trust fund operating under the leadership of the United Nations Deputy Secretary-General. UNDEF's advisory board recommends funding proposals for approval by the Secretary-General.

Chart 1: United Nations organization chart (2006)

Source: United Nations. www.un.org

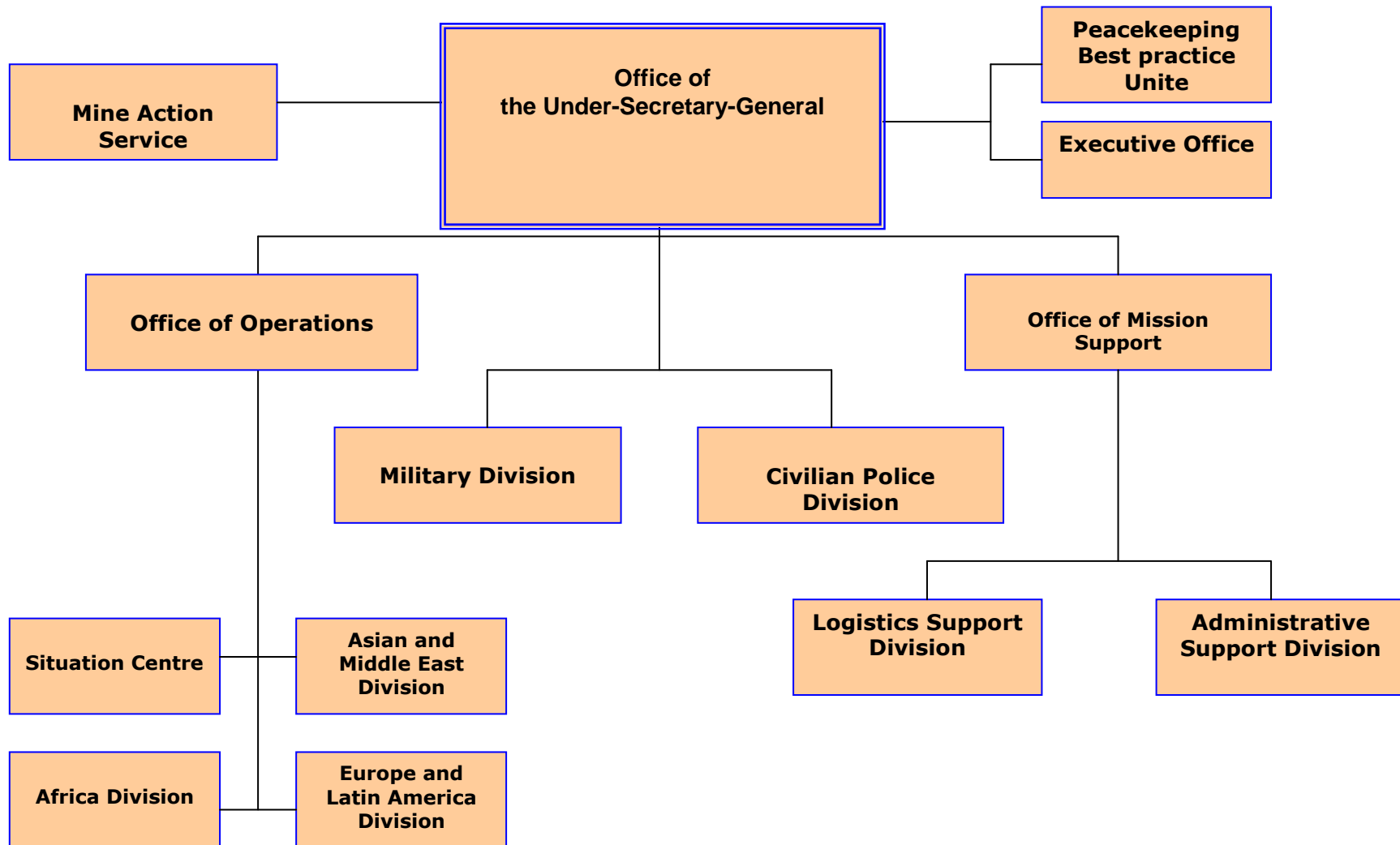


Chart 2: UN department of peacekeeping operations organization chart (2006)

Source: United Nations. [www.un.org](http://www.un.org)

Furthermore, its organizational structure and thus the bureaucracy involved contribute to hurdles in decision-making. This is further complicated by cultural differences which have varying effects on response time in decision-making.

Peacekeeping operations are established by the UN Security Council through resolutions after they have determined that continued unrest in a country may constitute a threat to international peace and security. So far United Nations peace operations have addressed no more than one third of the conflict situations of the 1990s. United Nations peacekeeping operations comprise three principal activities; conflict prevention and peacemaking; peacekeeping; and peace-building. Long-term conflict prevention addresses structural sources of conflict in order to build a solid foundation for peace. Where those foundations are crumbling, conflict prevention attempts to reinforce them, usually in the form of a diplomatic initiative. Such preventive action is, by definition, a low-profile activity which when successful may even go unnoticed altogether. However, these three principal activities: Conflict prevention and peacemaking; peacekeeping; and peace-building are inseparable.

Since the UN has no military or police force of its own, the member states decide whether to participate in a peacekeeping operation or mission, and if so, what equipment and personnel they are willing to offer. The DPKO under the Secretariat administers peacekeeping operations (Chart 2).

According to the Berghof handbook for conflict transformation, peacekeeping operations primarily consisted of monitoring ceasefire agreements, assisting in troop withdrawals, providing buffer zones and helping in the implementation of a final settlement. Modern peacekeeping, in an environment of intra-state conflicts where a range of economic, political and social issues must be addressed simultaneously, is now described as multilateral, multidimensional, multinational and multicultural (Ramsbotham *et al*, 1999). The military's task is theoretically to re-establish order and create a level of security that allows civilian organizations to carry out their humanitarian and political functions. Once the situation has stabilised the military should begin to reduce the size of their forces.

Recognition for multi-dimensional peacekeeping operations began in the early 1990s. In 1992 then UN Secretary-General Boutros Ghali issued the Agenda for Peace which laid the foundation for a broader interpretation of what peacekeeping should entail. Further evidence is found in the Report of the Panel on United Nations Peacekeeping Operations, commonly referred to as the “Brahimi Report”. Among the recommendations of the Brahimi Report was that a peacekeeping operation mandate must expressly state the use of force where necessary in order to respond effectively to such challenges and successfully and responsively carry out their mandates. That means peacekeepers must be capable of defending themselves (United Nations, 2000). The success of any force depends on its effectiveness and efficiency. All nations prefer effective military forces however, the more cost-effective they are the more useful they would be to these nations.

However, though the UN has been in charge of peacekeeping for years, they have not been as efficient and effective as would have been expected. During an interview with the Daily Telegraph last year, the then United States Permanent Representative to the UN, John Bolton said that the UN is completely out of touch and stuck in a “time warp” with “practices, attitudes and approaches that were abandoned 30 years ago in much of the rest of the world.” Abul Aziz (2007) was also of the same opinion and said that it is not surprising that the UN is what it is today and went further to describe it as an organization that barely meets minimum international standards of service delivery and efficiency.

It has been argued that the UN cannot maintain a standing army and civilian police because it would defeat the whole aim of efficiency and cost-effectiveness. Nations can be called upon to provide soldiers that would be part of a rapid deployment team to respond at a short notice to trouble spots around the world. However, these forces from contributing nations may be cost-effective but not efficient as they would be bound by international law since they are under the auspice of the UN. To become truly very efficient and cost-effective a peacekeeping force would either have to be a private organization and/ or military organization (Abul Aziz, 2007).

The 1990s witnessed an increased use of private military and security organizations in a number of contexts within peacekeeping. Organizations such as Military Professional

Resources Inc (MPRI), ACME, Sandline International, DynCorp, Raytheon, Kellogg Brown and Root (KBR), Blackwater and Triple Canopy to name a few, have been hired by governments, private corporations and humanitarian organizations to provide a range of security and military services including: combat and operational support, military advice and training, arms procurement, logistical support, security services, intelligence gathering and crime prevention services. These services depend on the prevailing circumstances (Lilly, 2000). Others have spoken of having a permanent corps of several brigades/battalions of U.N. peacekeepers, with donor nations including the likes of the U.S., U.K., Japan, France, Germany, Russia and China. It seems to be an idea that has been discussed many times but has never been realised.

According to Lilly (2000), private armies appear in theory to be the most effective. Private security and military organizations may be used in future by multilateral peacekeeping organizations to perform all the functions of a regular army. This would be the ideal situation as it would not only be cost-effective, but efficient as well. Lilly (2000) added that one could argue that activities of private military and security organizations have revealed many of the shortcomings of the UN and other multilateral organizations in responding to a growing number of global crises and that they could be used to take up the slack where these bodies are unable or unwilling to intervene. Serious concerns has however been raised about private organizations being involved in peacekeeping operations of a military nature, as their activities are seen by some to resemble those of mercenaries. The UN in particular does not see them as a feasible option. According to Flynn (2006), “What is astonishing is the outsourcing of war to private organizations concerned with profit? At least when the government does it, it is motivated to win and to protect the troops. With private military organizations, they are motivated by profit only”

Since the end of the Cold War many western governments with the United States at the forefront, have been increasingly reluctant to commit their national troops to multilateral peacekeeping missions unless key interests are at stake, because of the political storm that would erupt back home if there are casualties. This trend became evident after the ill-fated intervention in Somalia in 1993 and was displayed quite vividly again in Kosovo when most allied countries were unwilling to provide ground troops to the NATO campaign.

Against this backdrop private military organizations have shown a willingness to intervene in many of the hostile environments that have little strategic interest to key global powers, while appearing not to suffer the same political constraints as governments in incurring casualties. As opposed to national troops, the public outcry when privately contracted military personnel are used is not the same because their motivation is essentially financial and not to ensure national security. Fatalities of private military company personnel have received far less attention than those of national forces. Heavy losses incurred by DynCorp, an organization used by the United States in Colombia, for example, apparently received minimal attention when compared with the death of five active-duty American service personnel in a plane crash in the same country in 1999 (Lilly, 2000). For example, a former US military officer who was responsible for outsourcing various counter-narcotics operations in Colombia said the risks are greatly reduced when private contractors take over dangerous assignments (Robberson, 2000)

With governments the aim would be to bring a quick end to a war and thereby peace, while private armies main concern would be profit. Although so many individuals have come in defense of private armies, the argument is whether it is financially wise to keep an extra 20,000 soldiers on standby for years, collecting peacetime paychecks and needing to be housed and fed, while waiting for a nation to be overthrown or go to war with another. According to the International Peace Operations Association (IPOA) Vice President Mr. Brooks, “Private organizations (armies) provide surge capacity for just such scenarios”. He went further to say, “they are faster, cheaper and better”.

Furthermore, on the use of private armies, Flynn (2006) disagreed with Mr. Brooks. He said that private armies are not usually faster, nor is the U.S government known for being quick to react or reach decisions. On whether they are better, he described it as being highly debatable. For example, on March 31, 2004, four private contractors working for Blackwater Security were killed in Fallujah, Iraq. Of the thirty-four men initially assigned to Blackwater’s ESS project, nine were dead by June 2004. On whether the use of private armies is cheaper, he believed that they are cheaper in a theoretical capitalistic world. According to him Iraq is but a theory and off the

battlefield, a tangle of contracts and subcontracts, with cost and expenses buried in private deals and passed through layers of organizations all taking a cut. He concluded by saying that private armies are far from being cheap (Flynn, 2006).

Private organizations are perceived as offering a more cost-effective way of providing the same number of personnel because of savings usually associated with the private sector. Certainly the American government appears to be increasingly convinced by cost-benefits in using private contractors to conduct aspects of its military operations abroad. Its State Department, for example, has turned to Virginia-based MPRI to carry out large a part of its military training overseas, such as the Africa Crisis Response Initiative (ACRI). The purpose of ACRI is to create an indigenous peacekeeping force in Africa and MPRI is in the process of training a number of African militaries to this end. Presently, DynCorp is training the young conscripts for the new Liberian Army. According to the DynCorp spokesperson in Monrovia, Renee Hubka, "We are here, paid by the US State Department, to recruit, vet and train 2,000 young Liberian for the new Armed Forces of Liberia (Blunt, 2006).

Another factor necessitating the use of private armies is that the UN and other multilateral organizations also simply have not had the capacity or the necessary funds to cope with providing for peacekeepers on a continual basis in many of the conflict zones around the world. For example, the number of UN peacekeepers dwindled substantially by the latter part of the 1990s; although the figure for UN troops grew from 10,000 in 1989 to 70,000 in 1995, it had fallen to 19,000 by 1998 (Malan, 1999).

According to Lilly (2000), the peacekeeping plan for Kosovo also revealed a lack of capacity in certain areas. Originally, it included 4,780 police officers who were to come from forty-two countries and work under the direction of the UN, but by January 2000 there were only 1,970 officers committed with concerns about where the remainder would be found. On other occasions, according to Mallaby (2007), the Security Council does act but in confusing ways. In 2000, the Security Council mandated a peacekeeping force of 5,500 to monitor a ceasefire in Congo. The force was one-eighth the size of that deployed a few months earlier for Kosovo regardless of the fact that Congo is 60 times larger. Lilly (2000) concluded that in view of these

capacity problems, private security and military provide another potential pool from which personnel for peacekeeping operations may be found.

Apart from not being able to provide the necessary force required to enforce a peacekeeping mandate, another problem that has prevailed for a very long time in the UN and other multilateral organizations is the inability to act quickly and to deploy peacekeepers fast when crises arise. The fact is that the UN is a political body that requires consensus on decision-making and is administered by large bureaucratic institutions, which can be slow in responding even when there is sufficient warning of looming crises (Mallaby, 2007). A typical example of the lack of consensus was the unilateral invasion of Iraq. However, American unilateralism is not the only threat stalking the UN Security Council. The structure of the UN Security Council, which equips the five permanent members with a veto, is almost designed to invite unilateral obstructionism from Britain, France, China and Russia. The result is that the United Nations is paralyzed on almost every issue it faces, even ones on which unanimity might be expected. No government, for example, declares itself in favour of the genocide in the Sudanese territory of Darfur, and yet, despite the unanimity of rhetoric, one permanent member of the Security Council China, has a commercial interest in tempering its outrage: China buys 80 percent of Sudan's oil exports. As a result, China has used its veto power to wield the weapons of delay and dilution. Thus the UN is condemned to being slow and ineffective (Mallaby, 2007).

Even when there is consensus, in principle, the willingness to field a UN peacekeeping operation, getting agreements in place and forces mobilized to get to a conflict zone in time is extremely difficult. An example is the use of the Economic Community of West Africa Force (ECOMIL) for a quick intervention in the Liberian crises in 2003, pending deliberation at the Security Council for a full fledged UN peacekeeping operation. The same scenario was employed earlier in Liberia and Sierra Leonean in the 90s, where a regional force, the ECOWAS Monitoring Group (ECOMOG) were used to contain the crises in the two countries due to their ability to quickly intervene in regional security matters to prevent the situation from spilling into neighbouring countries. The preparedness of the Australian forces in East Timor is also important to mention.



The UN or most other multilateral bodies does not have a rapid deployment stand-by force that can be used on such occasions apart from the West African Force. It has been suggested that private security and military organizations could be called upon and deployed much more quickly than traditional multilateral forces. Furthermore, calling upon private organizations as and when they are needed could be far less costly than maintaining a permanently fixed stand-by force made up of national contingents from UN Member States (Lilly, 2000).

Flynn (2006) disagreed with the cost-effectiveness of private organizations. In the Blackwater death's at Fallujah, the men where paid by Blackwater who were in turn paid by Regency a hotel group and middle company providing catering services to troops and personnel in Iraq. Regency then passed the cost to ESS, another catering company that Blackwater was protecting. ESS then moved its cost to KBR and finally KBR gave its bill to the U.S government, which pays KBR all the expenses under a cost-plus contract, including what it has already paid to ESS, Regency and Blackwater, as well as a guaranteed profit. It becomes apparent that there is no incentive to save money in all the contracts. Flynn, (2006) ended by saying that private organizations or armies are not cost-effective. In addition, the profit motive of contractors may not always be congruent with the interests of the respective governments (Klareskov and Helgason, 2005)

Despite their advantages, at least for now, private armies cannot be used. A peacekeeping force comprising of a rapid deployment task force is the best solution both efficient and cost-effective. However, the only draw back is that it would still be under a political leadership of the UN. To be truly cost-effective the UN would need to outsource all support services associated with peacekeeping including discarding the idea of a standing army and have in place a properly trained rapid deployment task force drawn from member states, ready to respond at a short notice to any conflict zone around the world.

However, the Americans see it differently. The US government has so far used private military organizations for its commitment to multilateral peacekeeping operations. The probable reason is that they see the UN as being incapable of effective

peacekeeping. However, a recent study by the RAND Corporation, a non-profit global institute calls UN peacekeepers more successful than American troops at nation building. Sooner or later, the Pentagon may try to call UN troops a good alternative to Americans for occupation duty somewhere. In the Congo today, UN peacekeepers are simply called heroes (Dobbins, 2005). Furthermore, based on improved performance, there is a reality that UN troops may become very useful to the United States in the future since they now have the capacity to better resolve conflicts (Starr, 2005).

UN peacekeeping contingents are still constrained by one key limit: they are only as committed as the consensus in the United Nations Security Council (SC). That rules them out for anything as big and controversial as Iraq and Afghanistan, or to stop the slaughter of non-Arabs in Southern Sudan. Even in the Congo, the UN force stood aside instead of preventing interventions from the Rwandan government. So United Nations peacekeepers are not an instant answer for all low-level wars of today.

Mallaby (2007) further explained that the United Nations ineffectiveness is better explained by the Security Council's failure to reach a consensus on Sudan. In February 2007, the Bush administration sponsored an innocuous resolution condemning Burma's regime, which couples extreme brutality with only limited reserves of minerals. Even though the resolution imposed no sanctions, China and Russia combined to block it. In 2000, to cite another example, some members of the Security Council wanted to condemn Zimbabwe's odious dictator, Robert Mugabe, but China blocked this, too, even though a U.N. special envoy had suggested that Mugabe's violent expropriation of white farms might involve crimes against humanity.

A turning point for reforming the UN came in 2000 after rebels in Sierra Leone killed some peacekeepers and took hundreds more hostages. The UN commissioned a review, headed by Lakhdar Brahimi, a former foreign minister of Algeria, which called for troops to be deployed more rapidly in peace enforcement operations. According to the so-called Brahimi Report, "No amount of good intentions can substitute for the fundamental ability to project credible force" (UN General Assembly, 2000). This recommendation called for ways and means to making peacekeeping cost-effective while being efficient at the same time. Though the recommendations of the panel have

been applauded, the report fell short of a comprehensive cost-effective and efficient solution to peacekeeping operations. Private organizations or armies would have been the most efficient but they are not as cost-effective as originally thought by many observers and there is also the moral question of control. The other alternative is a rapid deployment task force, efficient and cost-effective; however, it has a drawback that it would still be under the political leadership of the UN leading to slow decision-making.

However, a UN Secretary-General, no matter how skilled, is caught between big powers that refuse to make the institution effective and the small less powerful nations that refuse to make it more efficient. The selfishness of one side encourages the irresponsibility of the other. Since the UN Secretariat implements resolutions passed by the unrepresentative Security Council (SC), the General Assembly (GA) sees no urgency in making it efficient. Therefore a way to strengthen the SC that is well understood by world leaders especially those leaders in the UN system is to abolish the SC vetoes and replace them with a system of weighted voting. Prominent countries such as those with large populations, large economies and large contributions to peacekeeping or other global public goods would retain more say than less prominent ones; but no single country could hold the rest to ransom. This would shift the SC from a diplomatic model to a quasi-parliamentary one but it would reward coalition-building and favour action (Mallaby, 2007).

As highlighted earlier, peacekeeping operations are constrained by funds and international politics. Due to their large sizes and robust management, they require a lot of funds to be able to undertake mandated responsibilities. Moreover, being a non-profit organization, they rely on the SC and contribution from donor countries and philanthropic individuals for funds. Since pledged funds usually take time before they are committed to physical cash, consequently peacekeeping operations must put in place a proper management system to ensure the proper use of funds when made available.

An ideal business approach to managing resources is to outsource support services or non-core functions in order to create a situation where organizations can concentrate on their core-functions. By so doing the UN would be able to better perform their

peacekeeping role and become more cost efficient and effective. Outsourcing requires proper planning and management. It should be cost efficient and lead to improved services.

## 2.2 OUTSOURCING SUPPORT FUNCTIONS OF PEACEKEEPING OPERATIONS

Though the increase in peacekeeping and peace operations in recent times signals that the world's intractable conflicts are coming to an end (Table 1), however, increased demand has placed huge additional strains on UN resources and personnel and member states ability to contribute funds, troops or peacekeepers, support personnel and equipment (United Nations, 2000).

**Table 1:** Personnel requirements of DPKO peacekeeping operation (2006)  
**Source:** United Nations Department of Public Information, Peace and Security Section, in consultation with the Department of Peacekeeping Operations and the Office of Programme Planning, Budget and Accounts.

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Personnel	
Uniformed personnel serving in peacekeeping operations <sup>1</sup>	72, 778
Countries contributing uniformed personnel	107
International civilian personnel	5,287
Local civilian personnel	10,010
UN Volunteers	1,607
Total number of personnel serving in peacekeeping operations	89,682
Total number of fatalities in peacekeeping operations since 1948 <sup>2</sup>	2,242

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Since effective peacekeeping comes at a high price (Table 2), additional resources are needed to ensure that peacekeeping and peace building efforts are effective; however,

<sup>1</sup> The term "uniformed personnel" refers to troops, military observers and UN police.

<sup>2</sup> Fatality figures include military, police and civilian international and local personnel in United Nations peacekeeping operations only.

it should be noted that no amount of additional funding can solve problems of peacekeeping in the world.

Therefore, to reduce rising cost, the recommended cost reduction method in the thesis is the outsourcing of non-core functions of peacekeeping operations to enable operations to become more efficient and allow for better focus and concentration on their core functions which are peace intervention, mediation and sustaining the peace. To achieve this as highlighted earlier, the thesis will identify outsourcing criteria applicable to the UN and develops the first outsourcing scorecard to guide the UN and similar organizations in identifying services that can be outsourced successfully.

**Table 2:** Financial requirements of DPKO peacekeeping operation  
**Source:** United Nations Department of Public Information, Peace and Security Section, in consultation with the Department of Peacekeeping Operations and the Office of Programme Planning, Budget and Accounts.

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Financial Aspect	
Approved resources for the period from 1 July 2004 to 30 June 2005	About \$4.47 billion <sup>3</sup>
Approved resources for the period from 1 July 2005 to 30 June 2006	About \$5.03 billion <sup>4</sup>
Estimated total cost of operations from 1948 to 30 June 2004	About \$36.01 billion
Estimated total cost of operations from 1948 to 30 June 2006	About \$41.04 billion
Outstanding contributions to peacekeeping as at 31 December 2004	About \$1.61 billion
Outstanding contributions to peacekeeping as at 31 December 2005)	About \$2.92 billion

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The United Nations and its peacekeeping operations in particular, would choose to outsource for almost the same reason as IT and manufacturing industries which is for improved competence, cost-effectiveness and lower overall costs and to focus on its core function of peacekeeping. This is especially true since the core business of

<sup>3</sup> Includes requirements for support account for peacekeeping operations and the UN Logistic Base, Brindisi

<sup>4</sup> Includes requirements for support account for peacekeeping operations and the UN Logistic Base, Brindisi

peacekeeping operations is the restoration of peace and upholding of democratic principles in strife ridden and war torn countries. Peacekeeping operations aiming to outsource non-core functions do it to overcome inherent shortcomings and inefficiencies associated with performing tangential activities in-house and focus on its core functions and to become more competent, more effective and; reduce administrative, overhead and operating costs (Burden and Haylett, 2000). In my opinion, political considerations and economic empowerment of local economies now form part of the reasons for outsourcing by these organizations.

**Table 3:** Peacekeeping operations budgetary levels

**Source:** Peacekeeping Financing Division. Office of Programme Planning, Budget and Accounts, Department of Management, Department of Peacekeeping Operations

PKO Component	1990/00 Approved	2000/01 Approved	2001/02 Approved	2002/03 Approved	2003/04 Approved
All PKOs <sup>5</sup>	1,705,161,200	2,566,292,719	2,674,522,400	2,502,249,689	2,684,378,400
UNLB	7,456,451	9,317,400	8,982,600	14,293,200	22,221,100
Support account	38,388,700	59,890,100	89,749,200	100,896,200	112,075,800
SDS <sup>6</sup>	—	—	—	141,546,000	—
Subtotal	45,845,151	69,207,500	98,731,800	256,735,400	134,296,900
Total	1,751,006,351	2,635,500,219	2,773,254,200	2,758,985,089	2,818,675,300

A report on outsourcing practices of the UN Secretary-General commits the UN to viewing outsourcing as one of the required options, among many others, that programme managers at the headquarters and in the field, should consider when seeking to provide or upgrade the quality or cost-effectiveness of the organization's non-core activities and services. However, the report specifically states that non-core

<sup>5</sup> Peace Keeping Operations

<sup>6</sup> Strategic Deployment Stock

activities and services should be outsourced only when it is cost-effective to do so. The report also established the guiding principles to be followed in any outsourcing engagement by the UN (United Nations General Assembly, 1999).

**Table 4:** Individual mission budget for 2005-2006

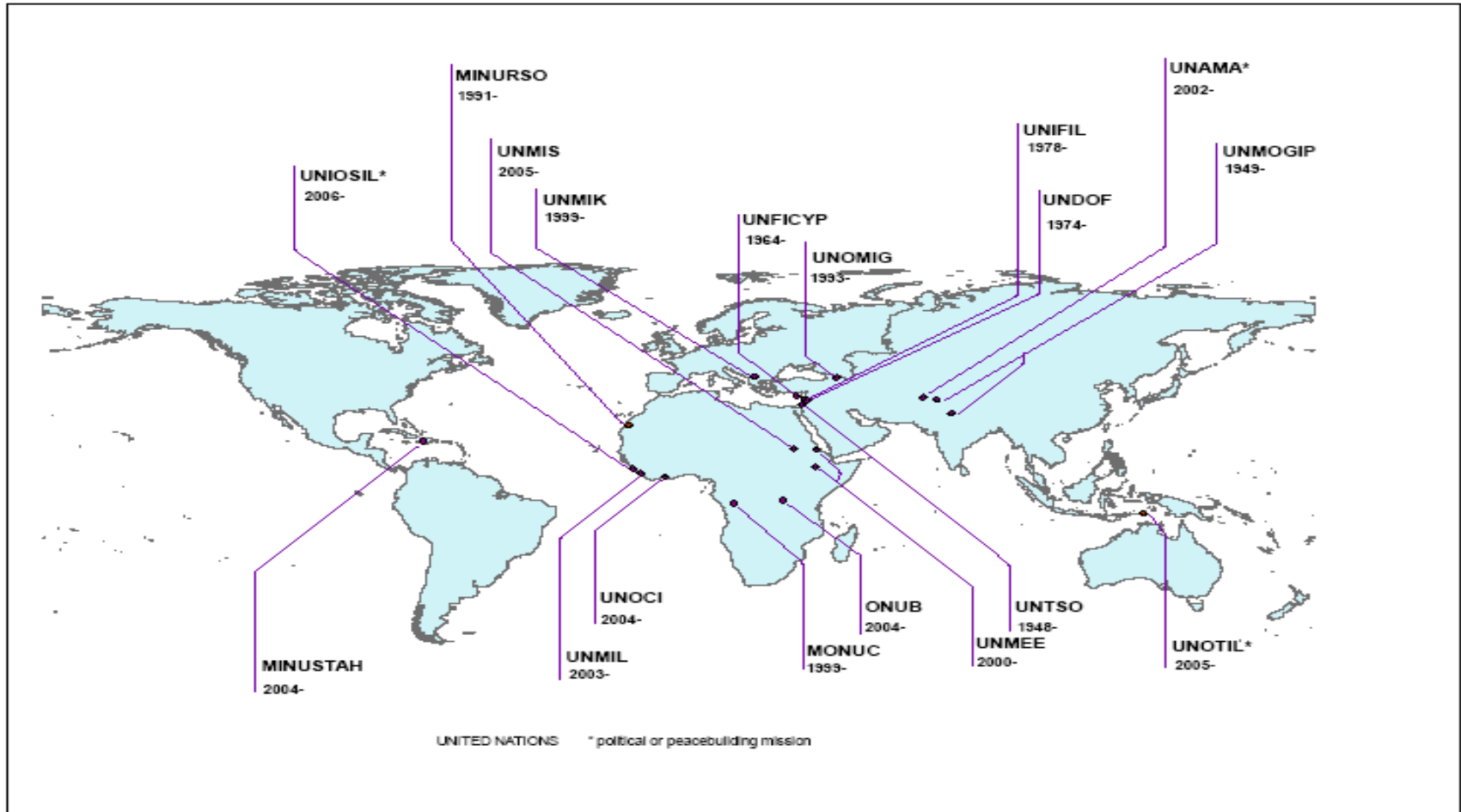
**Source:** Peacekeeping Financing Division. Office of Programme Planning, Budget and Accounts, Department of Management, DPKO

Peacekeeping Operation	Budget
MINURSO (Western Sahara)	\$47,948,400
MINUSTAH (Haiti)	494,887,000
MONUC (Democratic Republic of the Congo)	403,408,500
ONUB (Burundi)	307,693,100
UNAMSIL/UNIOSIL (Sierra Leone)	113,216,400
UNOCI (Côte d'Ivoire)	386,892,500
UNDOF (Israel-Syria Disengagement)	43,706,100
UNFICYP (Cyprus)	46,512,600
UNIFIL (Lebanon)	99,228,300
UNOMIG (Georgia)	36,380,000
UNMEE (Ethiopia and Eritrea)	185,993,300
UNMIK (Kosovo)	252,551,800
UNMIL (Liberia)	760,567,400
UNMISSET/UNOTIL (Timor-Leste)	1,757,800
<b>Total</b>	<b>\$3,180,743,200</b>

Another report of the UN Secretary-General (documents A/57/185 and A/58/92) on outsourced activities between 1999 and 2001, indicated that outsourcing activities remained a relatively small proportion of the United Nations financial resources and that the services and activities outsourced continued to be concentrated in specific areas, such as IT.



MISSIONS ADMINISTERED BY THE DEPARTMENT OF PEACEKEEPING OPERATIONS



**Chart 3:** United Nations peacekeeping and peace-building operations (2006)  
**Source:** UN Department of Peacekeeping Operations Cartographic Section



Though outsourcing is necessary to acquire technical skills not readily available within the organization and to achieve cost savings, on the contrary, outsourcing has not accomplished what it had set out to do, namely to establish the extent to which outsourcing practices in 1999 and 2000 were consistent with approved policies of effectiveness and efficiency in the management of resources (M2 presswire, 2003)

As outlined earlier, peacekeeping soldiers or peacekeepers are paid by their own government according to their own national rank and salary scale, countries volunteering personnel to peacekeeping operations are reimbursed by the UN at a flat rate of \$1000 per soldier per month. This is the main experience by the UN regarding outsourcing together with the reimbursement for equipment. However, payment to troops and equipment contributing nations is usually deferred due to a shortage of funds caused by inability of member states to pay their dues. Requests for exemption from paying dues by member states is acceptable under Article 19, however, if a member state of the UN falls behind in the payment of its dues by an amount equal to its assessments for the two most recent years, it will lose its right to vote in the GA, unless the Assembly decides that non-payment is a consequence of factors beyond its control (M2 presswire, 2003).

During the Fifty-Ninth General Assembly, Plenary, 104th Meeting, the General Assembly (GA) on 22 June 2005 adopted a record-breaking \$3.18 billion 2005-2006 peacekeeping budget for 15 peacekeeping operations (Chart 3) and emphasized a need for budgetary discipline, improved management and adequate control over budget implementation in the face of the current unprecedented surge in peacekeeping operations (United Nations, 2005). Therefore, the time for reform has arrived especially when contributing member's states are failing to pay their dues. The reform would ensure that available resources are properly maximised.

The "Brahimi panel" on peace operations recommended that the following core capabilities require considerable strengthening:

- The DPKO's management practices and culture;

- Its ability to translate legislative guidance into strategic plans for future peacekeeping operations, from “lessons learnt from past operations”;
- The priority and effort it dedicates to developing the requisite polices and capacities required to enable peacekeeping operation function efficiently and effectively; and
- Internal coordination for planning, conduct and support of specific peacekeeping operations

A complete and proper reformation of the UN should include methods that would also make it more cost-effective and efficient. As the most money guzzling department under the UN Secretariat, the reformation of DPKO should be of utmost priority. An ideal business approach to this problem is outsourcing all non-core functions and support services of peacekeeping operations. Therefore, to ensure that peacekeeping operations are fully efficient and cost-effective, all support functions must be outsourced. Outsourcing most of these activities that are non-core in nature would create value and lead to a better business focus on the organization’s core function and will free much needed resources that are tied up in providing remunerations for its staffs. The objectives of outsourcing will be achieved when it lead to a significant costs reduction while still remaining efficient and effective in providing support services required in accomplishing the organization’s mandate.

Outsourcing of support function is the only means by which the reformation of the UN and its peacekeeping operations would be wholly complete in all forms. Outsourcing requires proper planning and management. It should be cost-effective and lead to improved services. To achieve this objective, the right decisions must be made using appropriate decision criteria and scorecard developed in the thesis.

The thesis presents the first large-scale survey of outsourcing criteria applicable to the UN and develops the first outsourcing scorecard to guide the UN and similar organizations in identifying services that can be outsourced successfully.

## 2.3 MAKING THE DECISION TO OUTSOURCE

Many organizations look to outsourcing as a strategic decision to relieve strained resources, relieve non-core functions, reduce operating costs or improve service levels and gain a competitive advantage. No matter the reason, any outsourcing or in-sourcing decision should be based on solid business case analysis of alternatives.

When deciding whether to outsource, Bendor-Samuel (2001b) recommended that organizations should first assess the value outsourcing can generate. He further recommended that outsourcing relationships should be capable of the following:

- Generating direct savings;
- Creating indirect savings;
- Reducing risks;
- Making outsource processes more valuable to the rest of the firm or organizations;
- Mitigating antitrust issues;
- Improving customer relations;
- Satisfying stockholders; and
- Addressing the difficult issue of change.

Successful projects result from strong in-house knowledge and understanding of organization requirements, processes and service, and performance measures. Assigning costs and benefits requires that management understand the goals of the organization and how the proposed effort would benefit from the outsourcing process. Choosing either internal or external resources is simply a question of determining what available option best enables an organization to achieve its business objectives.

According to Bohanec *et al* (2003), decision is the choice of one alternative among a number of others on the one hand, and on the other hand, decision-making is a process of making a choice that includes:

- Assessing the problem;
- Collecting and verifying information;
- Identifying alternatives;
- Anticipating consequences of decisions;
- Making the choice using sound and logical judgement, based on available information;
- Informing others of decision and rationale; and
- Evaluating decisions

Swindon (1998) indicated in his study that senior managers in major federal organizations in 10 or so largest states and counties, in the United States such as Los Angeles and Wayne County, Michigan are under enormous pressure to produce results that save large sums of money, speed up service delivery and vastly improve government business processes. As if that was not enough, they also face the daunting challenge of actually carrying out the vision beyond their infrastructure decisions and taking responsibility for the impact of those decisions in the long run (Swindon, 1998).

Swindon (1998) went further to state that the result is often a solution that is in itself monolithic in nature and that turns to the major IT industry trends of the last five years including client/server computing, the internet and intranets, network computers and the privatization and outsourcing movement in its various forms for answers. Considering the mixed successes of each of these technologies, one wonders whether a simple monolithic solution to a complex problem is indeed too good to be true.

Of all the trends noted above, the most insidious has been outsourcing, which Swindon (1998) described as “the simple act of giving your troubles to someone else so you would not be bothered by them any more”. However he noted that that while many states in the United States have considered outsourcing in varying degrees, none had actually gone ahead to outsource everything. Perhaps the most basic question raised by Swindon (1998) is whether governments and the public sector organizations should outsource some of their non-core function especially IT. However this depends on what is right for your organization and whether they make the right outsourcing decision. Making the right decision should come from a basic

understanding of an organization's aims, objectives and requirements as well as their vision. What becomes of the outsourced staff is equally vital in any outsourcing decision-making.

Furthermore, the World Public Sector Report 2005 in highlighting some complex issues that governments need to consider when embarking on the implementation of outsourcing among their policy recommendations, cautioned developing countries against overzealous adoption of private sector practices in public management. Private sector practices, the report argues, are not a panacea that can address all the problems confronting the public sector, but only one part of a needed comprehensive reform. Therefore, there should be no rush in implementing and extending initiatives without properly evaluating outsourcing consequences. However, there is always a tendency that when influential international agencies assist and advise developing countries, governments and public sector organizations they are tempted merely to copy private sector practices, when in fact, the challenge is to adapt and select initiatives based on current prevailing circumstances of the organizations/countries. Therefore, public sector outsourcing success requires strong political direction and some old-fashioned fiscal discipline and controls (M2 presswire, 2003).

In continental Europe, for example, some countries have not been attracted to outsourcing of public functions because culture and traditions of these countries are not receptive to market-driven, alternative sourcing solutions to public-service problems. Their bureaucracies are imbued with top-down, public law privileges and obligations that cannot so easily be carved up or contracted out (Klareskov and Helgason, 2005).

Rondeau *et al* (2006) were of the opinion that if an organization chooses to outsource, consideration should be given to the impact of the outsourcing decision on employees and staff. It would have to be determined whether employees would be reassigned within the outsourcing organization or hired by the provider as part of the contract.

An understanding of the reaction of staff members faced with the preposition of being outsourced is essential. The initial reaction is almost as serious as in a lay-off situation and a total lack of understanding of how an organization they have worked for over a

reasonable length of period would even consider such an option. An understanding of how they would finally come to terms with the fact that the situation was going to change is to concentrate on looking after their own career interests, which may apply at an individual level. In this case staff should aim at getting an improved personal deal with the new service provider or try to transfer an alternative role in the same organization, while in unionized organizations, unions may be asked to negotiate terms with the service provider or seek to prevent an outsourcing engagement from proceeding.

Bragg (2006) was also of the opinion that in order to reduce the impact on employees, an outsourcing organization should keep outsourcing information and plans from their staff until a provider is selected. Afterward, the outsourcing details should be revealed together with the provider's representative who should then be introduced to employees. Outsourcing may prove to be a career enhancer for more talented employees who are transferred to a provider, since they will have a better chance of working in their areas of specialization.

The UN also consider the reaction of outsourced employees important, wherein the UN General Assembly Resolution 59/289, while requesting the Secretary-General, inter-alia, to continue to consider outsourcing actively in accordance with the guidance and goals contained in paragraphs 1 to 3 of Assembly resolution 55/232. One of the three significant goals that must be considered with regards to the use of outsourcing by the United Nations is to avoid a possible negative impact on staff (United Nations, 1999)

However, the majority of the staff would eventually come to terms that their best interest would be served by joining forces and being absorbed by the new service provider. This would make them go out of their way to ensure that everything is done to reach a reasonable service level agreement which would give them and the new provider a chance to succeed. Furthermore, when outsourcing is chosen, in-house staff should be used to negotiate and manage the contract. The contract should also include a detailed service level agreement and benchmarks for measuring a provider's performance.

The UN report on outsourcing further indicated that in pursuing the goal of avoiding a possible negative impact on staff, heads of departments and offices are requested to ensure that, where outsourcing is under consideration and would affect staff members, they should inform staff representatives for the area concerned who would then have the opportunity to submit their views and make alternative proposals. This has been done in several instances but needs to be done in a systematic manner in order to fully implement a recommendation that was previously made by the Staff Management Coordination Committee and was accepted by the Secretary-General (United Nations General Assembly, 1999).

Due to pressure from outside groups, chief executives governments would have to be firm to ensure that when a decision is reached regarding outsourcing of services, it should be fully implemented for it to succeed. However, unlike in the private sector, where the main reason for outsourcing is profit, chief executives of government parastatals should be more accountable than their private sector counterparts.

The situation is no different at the UN which operates as a large public organization. Decision-making in the UN is as cumbersome as in most large government bodies. The reason is because of the composition and large size of the GA and the SC and also due to the complexity of the UN. The SC mandates all peacekeeping operations in the world, while the GA on the other hand makes most of the decisions at the UN including approval and providing of peacekeeping operations budgets. The DPKO administers peacekeeping operations but with the large number of nations and the complexities involved, its little wonder that decision-making is slow.

On the extent of services that should be outsourced and or carried out in-house by governments, Swindon (1998) stated that governments should investigate outsourcing, however only where an outsourcing decision does not lead to uninformed decision-making. He further argued that public ownership doesn't necessarily mean owning everything or that outsourcing should be all-inclusive. He however agreed that when government outsource services, proper control mechanism to ensure that an outsourcing engagement achieves its objective should be put in place. It is my opinion that Swindon's theory may also be useful to the UN when embarking on outsourcing

by ensuring that there should be no deterioration in the quality of product(s) or service(s) outsourced but rather, there should be marked and measurable improvements.

On user requirements and service levels, Alexander (1996) was of the view that the interpretation of a customer's expectation requires expertise, especially when a customer requires a level of service that would take twice as long to provide as the service provider had expected. A relationship between an outsourcing organization and a provider is vital for the satisfactory delivery of services. However, satisfactory service level depends on an organization's definition of quality. Requirements of an organization and what they are prepared to pay for it would lead to a fall in service level if there is no common understanding of what is achievable. Therefore the level of service should be clearly defined in the service level agreement.

According to Bragg (2006), a service level agreement (SLA) defines expected performance levels of a provider, while the development of the SLA should include extensive input from users who know what measurements targets are most importance. It should also describe procedures to be followed in the event of a provider's failure to meet SLA objectives. Negotiating an effective SLA that will provide value in the outsourcing relationship need not, and should not, be a one-sided process. The willingness of a preferred bidder to enter into the negotiation of the SLA design speaks volumes for their future acceptance of it, and indeed, they may have as much at more experience in the task as the client, Furthermore, while it is important to specify the desired outcomes in detail, the SLA must not be so prescriptive in the inputs side that it prevents the contractor from seeking ways to do a better job Booty (2009). An effective SIA:

- Identifies certain service levels or performance standards that the outsourcing contractor must meet or exceed;
- Specifies the consequences for failure to achieve one or more service levels;
- Includes credits or bonus incentives for performance that exceeds targets; and
- Establishes the level of importance of key service areas by a weighting system.



SLAs are not easy to design or negotiate. However, a comprehensive, fair and effective SLA is critical for a successful outsourcing relationship. In the course of negotiation, outsourcing clients and suppliers have the opportunity to learn much about how their future partner will approach important issues in the outsourcing relationship, which can only help in the smooth running of a contract (Booty, 2009)

Additionally, Cloete (2002) considered the description of services that are to be provided by a service provider as the most important aspect of any outsourcing agreement. Accordingly, the definition of the level of service is regarded as one of the most difficult tasks encountered when preparing an outsourcing agreement. He further stressed the importance of service levels since they are often tied to a rebate provision or a liquidated damages clause that require a provider to pay damages, issue credits or forego certain payments on failure of meeting specified service levels. Therefore without detailed service levels and performance standards, it would be impossible to measure or manage a provider's performance. The measurement of performance is important because it enables the provision of accurate data and facilitates cost control (Cloete, 2002).

In drawing up a contract, Bragg (2006) was of the opinion that the agreement should not be so detailed that the parties will get bogged down in the bureaucracy of abiding by the contract. A better approach is to focus on the development of a solid management framework within a contract which can be used to modify it later. However, this depends on changes in the operating relationship of all parties involved as well as changes in the business environment. Cloete (2002) also agreed that proper and effective management of all aspects of the agreement will ensure that an outsourcing engagement proceeds smoothly. Booty (2009) added that reasonable clients will avoid over measuring and trying to include every imaginable service level. They should agree to fair credits for failures in meeting service levels. Suppliers should be willing to understand that the client requires significant protection in the SLA and to acknowledge that there are certain levels of performance that would justify termination of the contract.

Alexander, (1996) further explained that interpretation of user requirements and service levels is formalised into agreements specifying these details which may either

be prescriptive and/or performance based. Performance specification sets the standard required while technical specification provides the details. However, service level agreements provide a mechanism for measuring conformance and auditing to ensure satisfactory delivery and receipt of service.

According to a research by the State of Texas, Department of Information Resources (1998), organizations and university IT management staff face increasing pressure from new technologies and competition from trained resources when planning, developing and maintaining IT projects. In response, managers have sought to use both internal and external resources to meet business needs effectively. External service providers are utilised to meet organization demands, but concerns over rising costs and contract effectiveness have led to the need to re-evaluate the decision-making process.

The decision whether to use internal or external resources must be made by:

- Understanding the needs and constraints of the organization;
- Identifying and quantifying appropriate measures for internal and external operations;
- Identifying and prioritizing project goals; and
- Conducting a cost-benefit analysis of the internal and external alternatives.

In order to make an effective decision, one of the first steps is to identify an organization's needs and understand why outsourcing may or may not be appropriate. The Department of Information Resources Austin Texas (1998) went further to identify the following as the reasons why external resources should be used:

- To have access to technology, skills, and knowledge not internally available;
- To improve business processes and enable organizational change;
- To provide needed short-term services without adding to ongoing operational costs; and
- To focus internal IT resources on core strategic plans and projects

They also identified the following as the reasons to use internal resources:

- To retain skilled personnel who are able to respond directly to organization needs;
- To obtain needed services at lower overall costs;
- To take advantage of employees' unique insight into a project or the organization's goals; and
- To have ownership and control over resource and personnel assets

Ultimately, decision-making is an informed selection of a solution to a problem. Important elements of this process include considering a range of alternatives and developing a criteria to choose the best approach.

Furthermore, when developing appropriate contract strategy, Alexander (1996) explained that it would be necessary to take each support function or activity and test whether the principal objectives of the outsourcing organization are influenced by the service. In situations whereby an organization would be at risk should any of its support services fail, the potential contracting mechanism must be redesigned to counter such a threat. Where a suitable contract cannot be structured, then in-house alternatives would need to be developed.

Hammer (1988) also agreed with the Department of Information Resources, Austin Texas (1998) that once an organization's needs and goals have been established, a thorough cost-benefit analysis should be conducted. The goal of the analysis would be to identify external and internal services costs that provide the greatest return on investment required. Therefore, cost-benefit analysis still provides the best basic structure for approaching provider selection and implementation decisions. Organizations must identify all internal and external service costs and benefits to make an effective and reasonable comparison. Quantitative and qualitative measures are essential to determine the full impact of staffing choice. Prioritizing objectives and identifying measures are essential to project success because they influence costs and benefits of staffing decisions. Staffing decisions are based on the opportunity cost of using internal resources and the identification of organization needs and costs. The decision also relies on an understanding of the complete costs of an outsourcing

engagement. Some of these potential costs are identified as those pertaining to outsourcing and to the use of internal resources and are explained as follows.

a. Costs of outsourcing, comprising of:

- Contract management costs to the organization;
- Effectiveness costs from lack of understanding of project objectives;
- Higher project costs as organizations may experience greater overall project costs in order to access necessary skills and expertise that are unavailable internally; and
- Higher costs from inadequately defined requirements

b. Costs of using internal resources, comprising of:

- Opportunity costs of staff time;
- Ongoing costs for additional full time equivalent (FTE) employees;
- Unpredictable costs as overtime occurs and as employees spend varying amounts of time month-to-month working on the project; and
- Effectiveness costs if in-house resources are not sufficient or skilled enough for the project.

A decision whether to use internal or external resources on a project is determined by the total of overall costs including more the intangible needs and risks. Significant benefits will be realised from prioritisation and determination of success criteria, as the organization is able to identify complete and comparable set of costs and benefits regarding resource choices. Resource limitations, in-house skill sets and knowledge, and expected performance and outcome measures are important factors that must be analyzed when making an outsourcing decision. Establishing and analyzing quantitative and qualitative criteria provides a bottom-line total that indicates which staffing decision is most effective and states the reasoning used in reaching that decision. Outsourcing can be an efficient and effective alternative to using in-house resources, but a full determination of costs and benefits is required to make that

decision. Successful decisions are dependent on having a clear understanding of all options available.

The chances for a successful outsourcing decision are maximised when a decision fully incorporates all known costs and benefits of internal versus external resources according to the type of project under consideration (Long worth, 2005). Outsourcing decision-making should include identifying an organization's needs, strategic interests and goals, in addition to computing all costs associated with the outsourcing process. It is important to consider all costs. Total costs or the total value a business would generate remains one of the primary drivers of management interest in outsourcing, while intangible costs are those that have important bearing on an outsourcing decision and are often ignored (Long worth, 2005). He concluded by saying that all cost savings are not always obvious in outsourcing engagement.

A cost-benefit analysis requires identifying, weighing, and evaluating all costs and benefits associated with any outsourcing project. The costs and benefits presented here are only starting points for criteria identification. After an analysis is completed, compared and information is gathered, if costs outweigh benefits for outsourcing, in-sourcing is the preferred option, and vice versa. If an analysis reveals that quantitative measures in monetary value show outsourcing to be more expensive, but pro outsourcing qualitative reasons are more important, then tools necessary to justify the decision are now available. A complete cost-benefit analysis will show why an organization has selected a staffing alternative, and what the most important factors in that decision-making process were. Measurements and objectives that explain how a decision supports an organization's business objectives in the most effective manner possible will be explicit.

Having a secure understanding of in-house strengths and weaknesses, as well as an understanding of the real total costs of an outsourcing engagement, will an enable organization make the best decision? Project success must always come from an ability to perform a desired service or activity. Identifying the best option for obtaining project success also stems from an understanding of the project processes: do you want the project done better, faster, or cheaper? A staffing decision is based upon the best use of an organization's resources, according to its needs and priorities.

Significant benefits will be realized when priorities and success criteria are clearly identified from the beginning and an organization is able to identify a complete and comparable set of costs and benefits regarding staffing choices. Establishing and analyzing quantitative and qualitative criteria provides a bottom-line total that indicates which staffing decision is most effective and states the reasoning used in reaching that decision. The next section discusses the decision-making process.

### 2.3.1 **The Decision-Making Process**

Concerns over rising costs and contract effectiveness have led to the need to re-evaluate the decision-making process. According to Bradley (1967), decisions of varying importance are made every day. Recent studies have also shown that most people are much poorer at decision-making than they think and an understanding of what decision-making involves, together with a few effective techniques, help produce better decisions. Furthermore, he defined a problem as an existing situation whereby what actually happened is different from what is desired. Accordingly, decision-making is a process that begins to change that situation and can thus be described as knowing whether or not to decide, when to decide and what to decide. It includes understanding the consequences of ones decisions (Bradley, 1967).

Harris (1998) also defined decision-making as the process of sufficiently reducing uncertainty and doubt about alternatives to allow a reasonable choice to be made from among them. This definition stresses the information gathering function of decision-making, where uncertainty is reduced rather than eliminated. Very few decisions are made with absolute certainty because complete knowledge about all alternatives is seldom possible. Thus, every decision involves a certain amount of risk. Barrett and Baldy (2003), revealed that decision-making is a complex, irrational process, however in spite of the apparently chaotic nature, it is essential to the overall success of an outsourcing engagement, Therefore, managers should develop more rational decision-making procedures and strive to improve decision-making capabilities. Experience has its own essential role to play within a rationalised decision-making structure. Therefore, decision-making should be viewed as a process that can be improved by working on integrating rational decision-making with intuitive and common sense approach to decision-making.

<b>Advantages of Outsourcing</b>	<b>Disadvantages of outsourcing</b>
<b>Disadvantages of in-sourcing</b>	<b>Advantages of in-sourcing</b>

**Chart 4:** Matrix of primary factors  
**Source:** Barrette and Baldry (2003). Page 160

In stressing the importance of decision-making Barrett and Baldy (2003) stated that the effectiveness of decisions is determined predominantly by the quality of the decision-making process used to generate it. Therefore, in a decision to outsource, a matrix of alternatives, as shown in Chart 4 should be considered which can act as a helpful tool in any decision-making process. Primary advantages and disadvantages variables when compared with secondary driving factors can be seen to be predictable in terms of nature and not in the effect they have on any given use. Primary forces can be viewed as influencing resources decision-making, while secondary forces generate incidental advantages

It is usually best for top management of organizations to define the decision-making model to be adopted. Typically, it should entail one of the following models:

- One person making the decisions;
- One person consulting a group, then making the final decision; and
- Team or group making decisions based upon majority rule or consensus

Therefore, a decision-making model should be chosen at the beginning of an outsourcing engagement, that is, during team formation, because of potential political and internal power groups.

According to Chording Inc (2007), an information portal on decision management on the World Wide Web, the success of a business depends upon the quality of decisions it makes for each customer contract. Such decisions must reflect the business strategy,

the interest of the customer, his or her value and risk to the business. It further stated that a business that can determine and implement personalised management strategy for each customer has the means of ensuring that suitable decisions are made in accordance with its overall objectives.

Bragg (2006) added that though there are many good reasons to outsource there are also a number of risks associated with doing so which can range from minor pricing issues to non-performance of key functions by a provider. Therefore, before making a decision to outsource, certain risks must be taken into consideration and mitigated. Such risks include:

- Future changes in supplier circumstances;
- Supplier failure;
- Political fallout;
- Loss of confidential information;
- Local responsibility;
- Perceived risks that are lower than actual; and
- Job loss.

Furthermore, Cloete (2002) was of the view that an outsourcing decision is driven by the benefits and risks of outsourcing therefore, proper care must be taken to ensure that the right decision is reached. (Harris, 1998) differentiated on types of decisions by pointing out that there are several basic kinds of decisions. An example is “Decisions whether”: This is the yes/no, either/or decision that must be made before proceeding with the selection of an alternative. Should I buy a new TV? Should I travel this summer? “Decisions whether” are made by weighing reasons pros and cons. It is important to be aware of having made a decision, since too often we assume that decision-making begins with the identification of alternatives, assuming that a decision to choose has already been made.

Barrett and Baldy (2003) further considered decision-making as part of a larger process of problem solving. While Harris (1998) considered other types of decision-making such as, “Decisions which”: These involve a choice of one or more alternatives from



among a set of possibilities, the choice is based on how well each alternative measures up to a set of predefined criteria. Lastly, “Contingent decisions” are decisions that have been made but put on hold until some conditions are met. Furthermore he stated that most people carry around a set of already made contingent decisions, just waiting for the right conditions or opportunities to arise. Time, energy, price, availability, opportunity, encouragement, all these factors can figure into the necessary conditions that need to be met before we can act on our decision. Harris (1998) went further to state that a critical factor that decision theorists sometimes neglect to emphasize is that in spite of the way a process is presented, decision-making is a nonlinear and recursive process. That is, most decisions are made by moving back and forth between a choice of criteria (the characteristics we want our choice to meet) and the identification of alternatives (the possibilities we can choose from among). The alternatives available influence the criteria we apply to them, and similarly the criteria we establish influence the alternatives we will consider. Harris (1998) used this as an example to clarify this is.

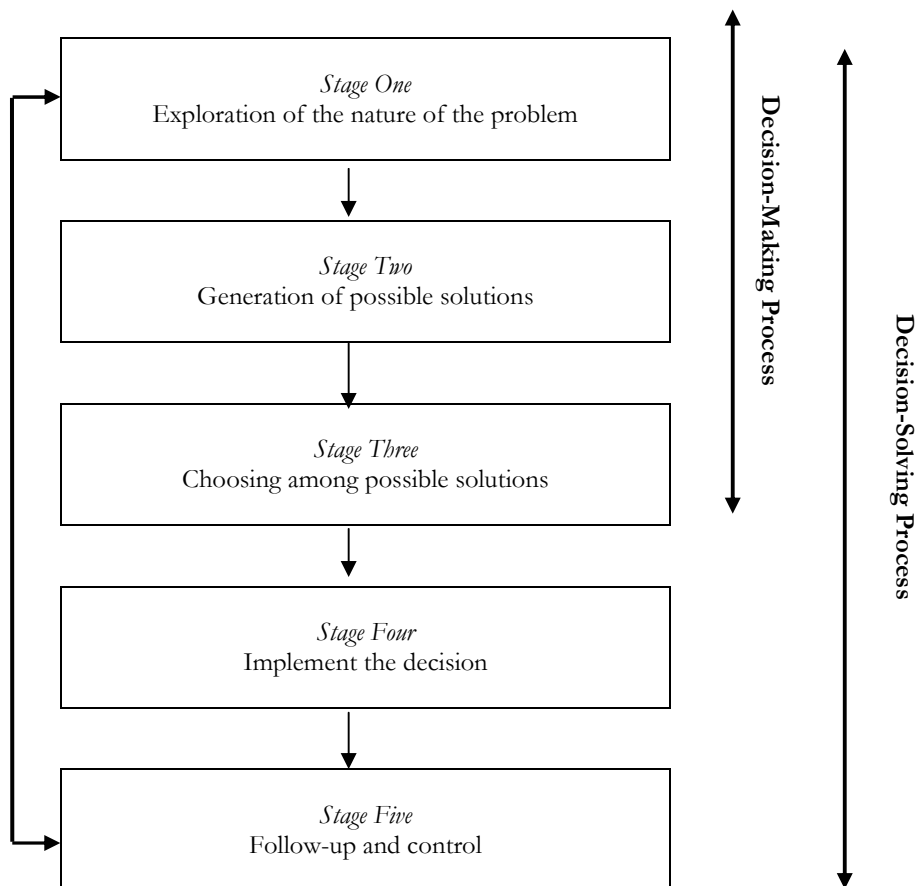
“Suppose someone wants to decide, Should I get married? Notice that this is a “Decision whether”. A linear approach to decision-making would be to decide this question by weighing the reasons that is, the pros and cons (what are the benefits and drawbacks of getting married) and then to move to the next part of the process, the identification of criteria (supportive, easy going, competent, affectionate, etc.). Next, we would identify alternatives likely to have these criteria (Jennifer, Kathy, Michelle, Julie, etc.).”

Applying Harris (1998) decision-making process outlined above to a real life outsourcing scenario: For example, suppose an organization wants to decide, whether it should outsource a service? Notice that this is a “Decision whether”. A linear approach to decision-making would be to decide this question by weighing the reasons pros and cons (what are the benefits and drawbacks of outsourcing) and then to move to the next part of the process, the identification of criteria (cost reduction, labour issues, competitive pressures, maintenance of product and service quality, maintenance of competitive position by reducing cost and labour expense, improved knowledge , enhanced technology, risk sharing and multi clientele opportunity, etc.).

Next, we identify alternatives likely to have these criteria (carrying out services in-house, using internal task force choosing between service providers etc.). He further explained that each alternative should be evaluated according to the criteria and the one that best meets such criteria should be chosen. According to Harris (1998), the scheme would appear like this:

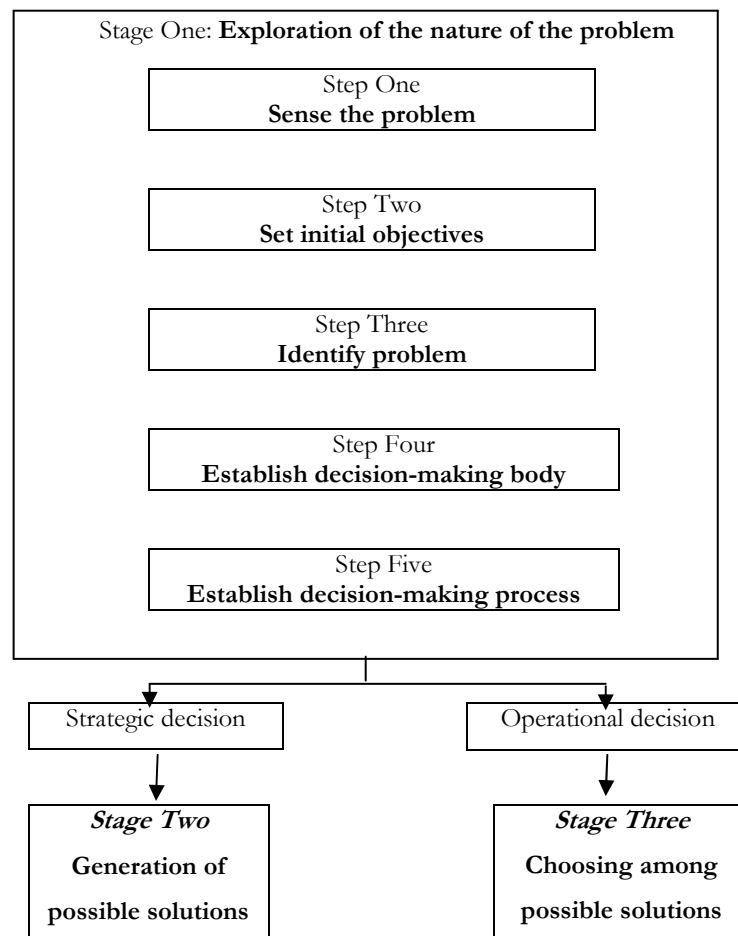
“Decisions whether ... select criteria ... identify alternatives ... make choice”

However, the fact is that our decision whether to outsource may really be a contingent decision. “We will outsource if we can find the right service provider.” It will thus be influenced by the identification of alternatives, which we usually think of as a later step in the process.



**Chart 5** The basic model of the problem-solving process  
**Source:** Barrett and Baldy (2003) Page 230

Similarly, suppose we have arrived at the “identify alternatives” stage of the process when we discover that a service provider, identified as an alternative, can provide the required services differently, but that we now really want to outsource this service. We immediately add this new criterion to our list of criteria. Thus, the decision-making process continues to move back and forth, around and around as it progresses in what will eventually be a linear direction but which, in its actual workings, is highly recursive.



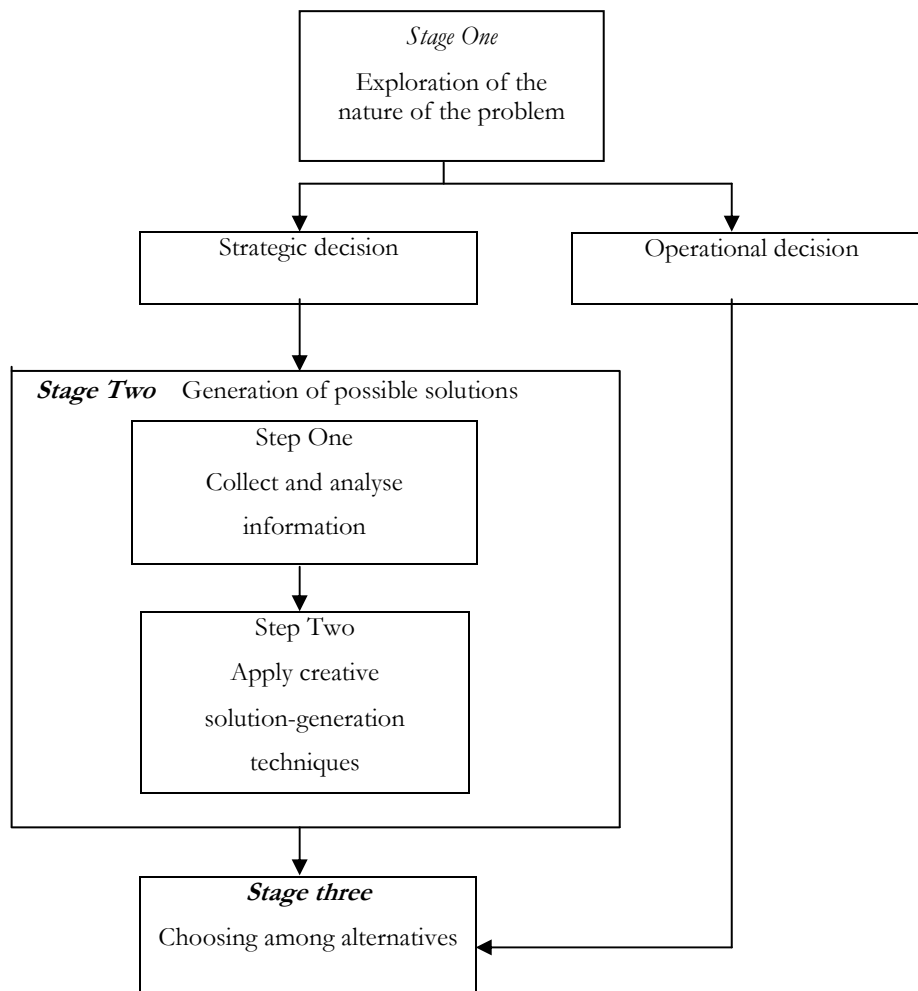
**Chart 6:** Exploration of the nature of the problem stage

**Source:** Barrett and Baldy (2003) Page 232

Barrett and Baldy (2003) indicated that in developing structured approaches to decision-making process, the relationship between a decision-making process and a

problem-solving process should be appreciated. Furthermore, a decision-making process should begin with the exploration of the nature of the problems and continue through the generation and evaluation of possible solutions, and culminate in a choice of an option. Chart 5 shows the stages of a problem solving process and the sub-process of decision-making. He also considered that in using a decision making model, managers could easily enter the decision-making process at whatever stage for a given problem situation.

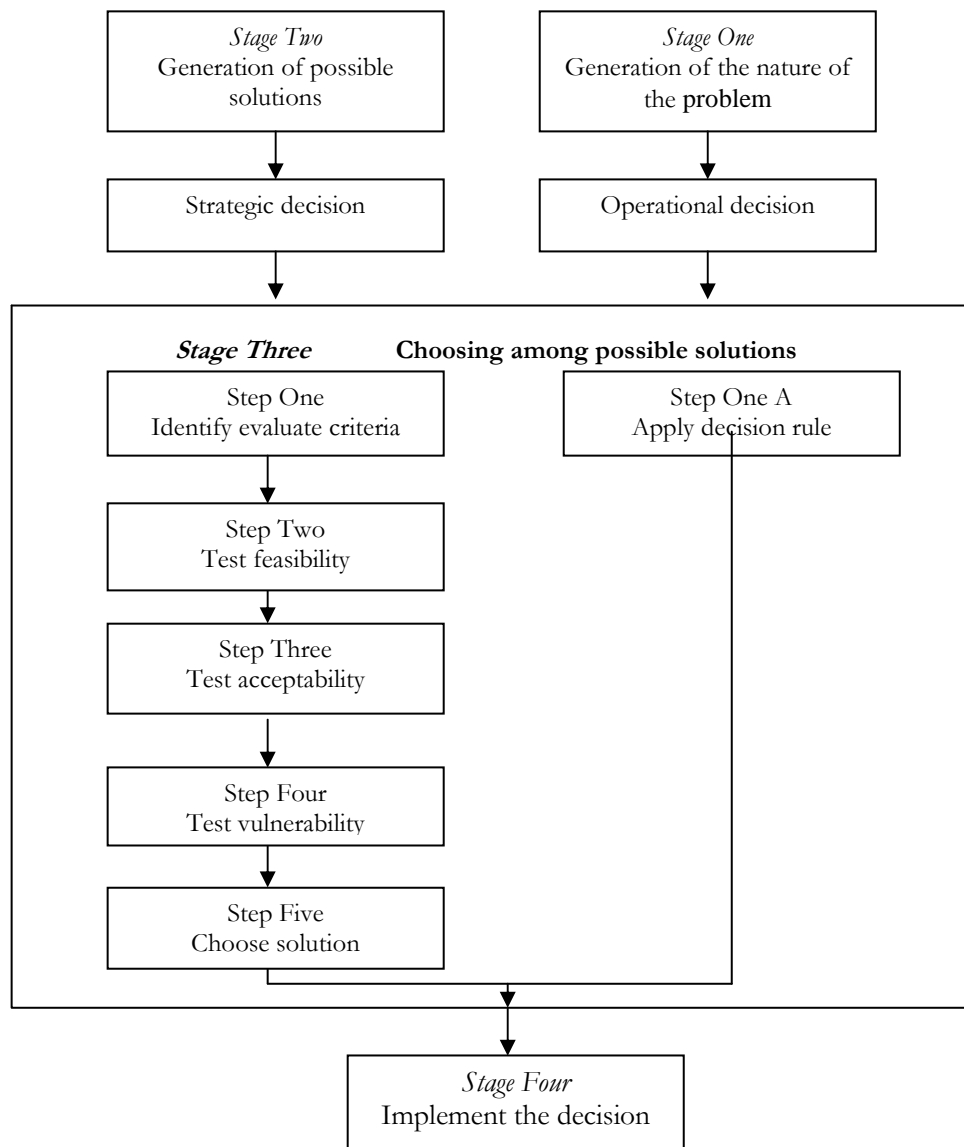
A problem detected from these sources can be viewed as falling along a continuum: At one end are opportunity problems whose solution is initiated on a voluntary basis to improve an already secure situation. At the other end are crises problems, where a situation arises which require immediate attention.



**Chart 7:** Generation of possible solution stage

**Source:** Ballett and Baldry (2003), Page 246

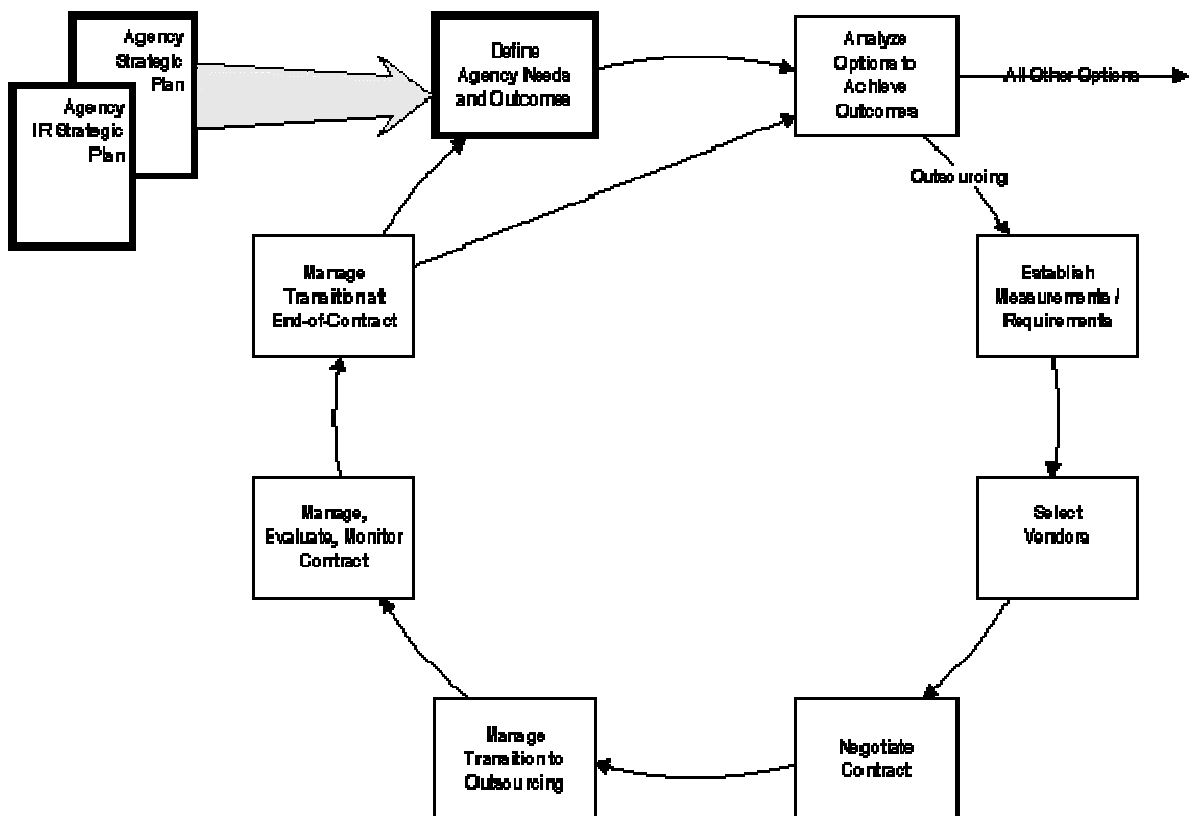
The objective of stage one (exploration of the nature of the problem) is to provide the remainder of the decision making process with a sound foundation, reduce the risk generation of any inappropriate solutions and /or excessive use of organizational resources. This stage (Chart 6) gives overall direction and builds in the potential for added value where the benefits for the outcome of a decision-making process exceed the required input of organizational resources.



**Chart 8:** The choosing-among-possible-solution stage

**Source:** Ballett and Baldry (2003), Page 254

In explanation Barrett and Baldy (2003) mentioned that with the rapid change being experienced by organizations, there is an increasing tendency for problems to be detected only towards the crises problem-sensing mechanisms which will enable him to detect problems early so that the problem is nearer the opportunity end of the continuum giving the provider time to come up with quality solutions. Furthermore, according to Barrett and Baldry (2003) the objective of this next stage (generation-of-possible-solution stage) is to search for information which can be processed into a range of possible solution with emphasis on effective and efficient information collection, on creative and idea generating techniques. Chart 7 shows the steps in the generation-of-possible-alternative stage. The next stage is the (choosing-among-possible-solution stage).



**Chart 9:** Outsourcing Process

**Source:** State of Texas, Department of Information Resources, (1998). Page 19

The purpose of choosing-among-possible-solution stage is to evaluate possible solutions against predetermined criteria in order to arrive at an optimal solution, which entails firstly identifying the evaluation criteria and comparing the alternatives using the selected criteria (Chart 8). At stage three in Chart 8, the solutions should have been chosen and should be ready for implementation, follow up and control stages. The implementation stage involves the required planning and carrying out of activities so that the chosen solutions actually solve the problem. Insufficient managerial care is a primary reason for failure at the implementation stage.

According to Barrett and Baldry (2003), to avoid employee resistance to the decision, employees impacted by the decision should not be involved or used at the implementation stage. Furthermore, many implementation phases are not as successful as they should have been due to the provision of inappropriate resources. The last stage, the (follow-up and control), ensures that what actually happens is what was intended to happen. To enable smooth running of this phase, necessary infrastructure should be set up in advance for the collection of necessary information to monitor the implementation programme (Barrett and Baldy, 2003).

Most outsourcing decisions begin with an assessment of the role that the function in question plays in advancing an organization's core competencies, functions, or mission. The underlying logic is simple, any function an organization performs that is not essential to its mission, can, in theory, be outsourced. However, assessing an organization's core competencies is often an ambiguous and difficult task. Therefore, according to the State of Texas, Department of Information Resources, (1998), when an organization chooses outsourcing as the best option to meet identified needs, implementing and managing the arrangement is the next step. Outsourcing can best be viewed as a cycle, beginning with a decision-making process and ending with a re-examination of an outsourcing contract, where you select again from available alternatives. Once an organization has selected an outsourcing option, it has the corresponding responsibility to follow through all the steps of the process, constantly managing the contract and evaluating the results. Chart 9 illustrates the steps in the outsourcing process.

The decision-making process is further explained by The State of Texas, Department of Information Resources (1998) in Chart 10 which illustrates an analysis process that helps to ascertain if outsourcing is an option, or if in-house staff represent the best use of agency resources. To identify whether or not outsourcing is appropriate, several background questions outlined in the chart must be answered.

In response to that challenge, a document by the Department of Information resources at University of Texas at Austin, (1998) recommended that: “Organizations simultaneously consider the functions that they may benefit from outsourcing in conjunction with the core competencies of third parties that could potentially provide outsourced services”. Again, the logic is simple unless a qualified provider can be identified for a specific function, there may be no value added in considering an outsourcing plan for that function. According to Goldsmith (1989), the first question any organization should answer in this regard is:

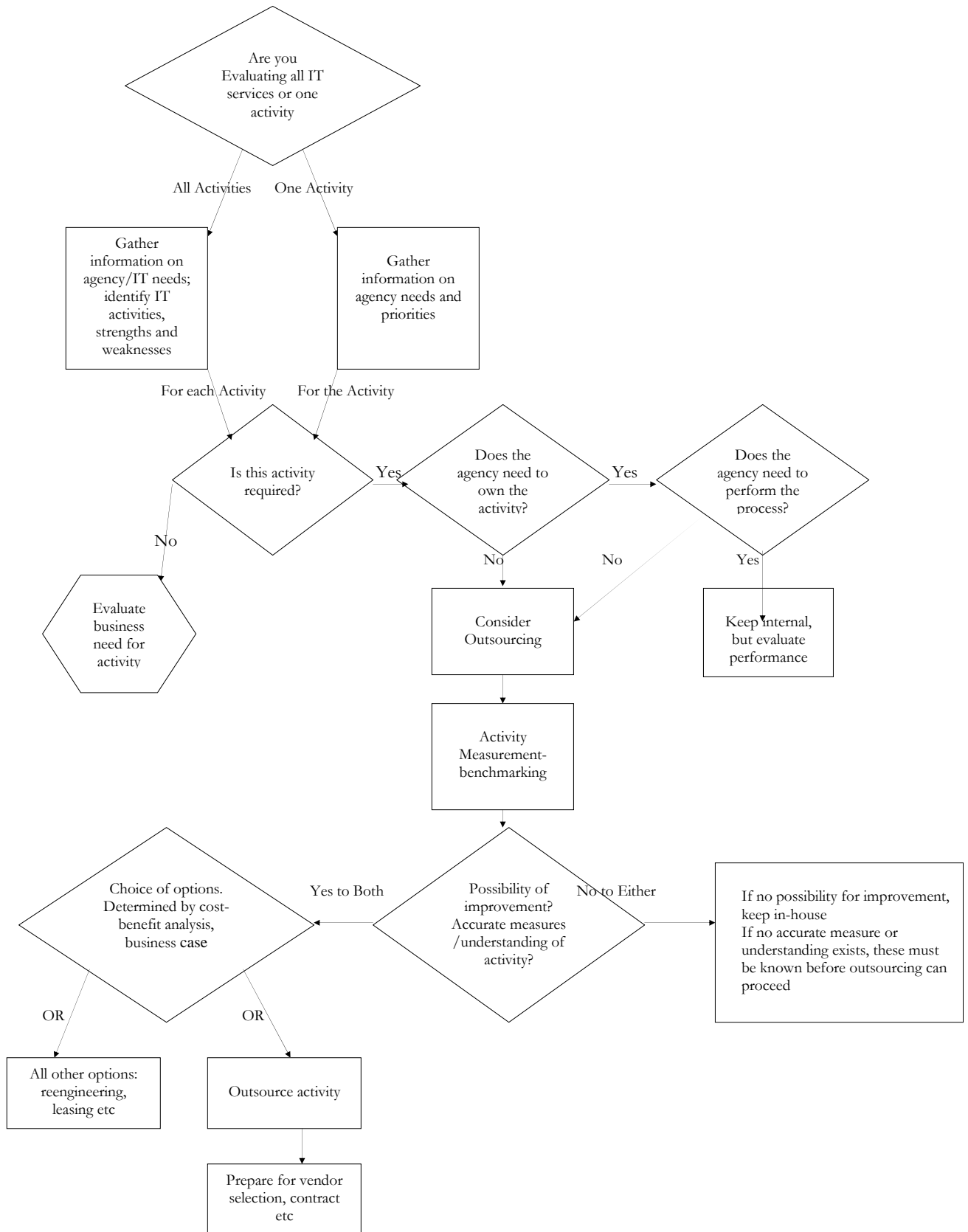
- What are the company’s most significant considerations: Competitive position? Profit? Inventory control?
- Do we have adequate manpower for these functions? Do we have a knowledgeable staff, enough support, and Third Party Logistic Provider help?

Using this sort of analysis, the initial task for any management in assessing outsourcing needs is to identify areas where the organization can match its needs with the essential competencies of potential service providers.

Copacino (1994) presents a similar framework to help managers assess the impact outsourcing may have on operations at the strategic, structural, functional, and implementation levels. According to his framework, an outsourcing plan must include:

- An accurate definition of customer service;
- Some knowledge on competitors; and
- Institutional flexibility to incorporate a speedy response to future needs of existing or new customers





**Chart 10:** Outsourcing Decision Flowchart

**Source:** State of Texas, Department of Information Resources, (1998), Page 9

Thus, works of this sort clearly indicate the importance of identifying and connecting core competencies when making a decision to outsource. According to Eger, *et al*, (2002), core competency assessment in the public sector is more ambiguous and as a result, more difficult to execute. However, attempts have been made to provide managers with a model for this sort of analysis. Siegel (2000) in addressing outsourcing of public personnel functions provided a model (Table 5) for assessing public organization core competencies.

This model outlines a total of nine potential modes, each incorporating a different mix of centralization and competition between in-house, private sector, and intergovernmental service providers. Once modes of delivery are agreed upon, organizations should consider the availability of private sector or intergovernmental service providers, restraints on service supply, contractor reputations, regulatory legislation, and other factors as part of the decision to outsource.

The model then calls for a procedural analysis of the service(s) to be outsourced in order to seek and assign an appropriate service provider for the service(s). Table 5 illustrates some logical alternatives (traditionally and competitive) to service supply (Siegel, 2000). Also critical are evaluation and monitoring concerns. Since private organizations are driven by a profit motive, and often by a clear business plan or mission statement, the incentive to outsource flows directly from the efficiency gains and increased profits that occur as a result of task specialization, economies of scale, refined scope of mission, and other advantages realized through an outsourcing plan.

However, in the absence of a profit as an incentive in the UN and non-profit making organizations, a number of other motives substitute for efficiency and cost-savings. According to Prager (1994), outsourcing government services, will neither reduce government spending nor increase government efficiency unless the decision makes economic sense. He further elaborated that firstly, a governmental establishment may decide that downsizing is a political, not financial or economic imperative. Secondly, it may use outsourcing to serve as a threat to weaken the power of an entrenched bureaucracy or labour union.

**Table 5:** Traditional and Competitive HR Service Delivery Modes  
**Source:** Siegel (2000), Page 6

<b>Competitive Alternatives</b>	<b>Traditional Alternatives</b>
<p><b>1. CPA markets services:</b> Departments purchase all or selected services from CPA and pay by inter-departmental service charge or other transfer; Units of other governments purchase services from CPA under contract or fee for service arrangements.</p>	<p><b>1. All centralized mode:</b> Central personnel agency (CPA) provides most services to departments on a centralized basis.</p>
<p><b>2. Departmental units market services:</b> Some market services to other departments in jurisdiction, to CPA, or outside governments</p>	<p><b>2. Semi-decentralized mode:</b> Some authority is delegated to departmental HR units for some functions, or there is shared responsibility (e.g., both recruit and test).</p>
<p><b>3. CPA and/or Departmental units procure services:</b> All or selected services procured from private sector or other governments by contract or fee for service.</p>	<p><b>3. Mainly decentralized mode:</b> Most HR operations are decentralized to line departments, sub units, and line management; CPA retains coordinating, evaluation/audit, and general policy areas of authority.</p>
<p><b>4. Intergovernmental compact:</b> Intergovernmental consortium markets services to CPAs and departments.</p>	<p><b>4. Mix mode:</b> Variations on these themes in line departments and their subordinate units.</p>
<p><b>5. Mix mode:</b> All potential suppliers compete to supply services; mixture of traditional and competitive service supply alternatives in same jurisdiction.</p>	

Thirdly, it may use outsourcing to improve the short-term budget picture. Nevertheless, a government establishment and other organizations, especially the UN, have a professional responsibility for addressing situations in the long term. It is my opinion that outsourcing of support functions in peacekeeping and peace-building operations should not be used to appease politicians and /or local economies of host nations in the name of nation building or mandated for short-term gains, since this is against the principles of peace-building. In spite of the best efforts of these and other researchers, the ambiguity surrounding public organization missions often creates a potential for misuse of outsourcing (Prager, 1994).

Certain barriers can impede a decision to outsource. Outsourcing barriers usually provide an insight into an institutional setting in which outsourcing is or would be occurring. These barriers to outsourcing are an important aspect for the development of an outsourcing decision-makings scorecard. According to a study by Eger *et al* (2002), the primary barriers to outsourcing of public sector functions are labour agreements followed by government regulations. These are important institutional barriers that seem to impede or influence outsourcing decisions in the public sector. He indicated that in the manufacturing sector internal organizational issues are usually identified as barriers to outsourcing. However, due to the nature of service(s) they offer and their geographic locations, legal and political considerations as well as labour union and unavailability of skilled labour may pose as barriers to outsourcing for the UN. To circumvent failure, serious consideration must be given to barriers to outsourcing during decision-making.

It is also equally important to identify all risks of outsourcing during decision-making. Eger *et al.* (2002) identified quality, cost, product control, contract performance, and response to situational problems as the risks of outsourcing. While risks associated with cost containment are usually seen as one of the top three risks to outsourcing regardless of whether it is the private or public sector, these risks have to be identified and mitigated to ensure successful outsourcing.

Most decisions for large private and public sector organizations are usually handed down from their respective headquarters. The situation is not different in the UN,

whereby decisions regarding outsourcing for a peacekeeping operation are handed down from the headquarters of DPKO. However to ensure a more efficient and effective decision-making process that is realistic, some of the decisions should be carried out at the local peacekeeping operation level. A local peacekeeping operation should form part of or be included in any decision-making process, because they are physically present and on-site and thus have a better insight and understanding of the geopolitical situation. However, strategic aspects of decision-making can be initiated and drafted at headquarter level but most of the input should come from the local peace operation.

Decisions may also be shared between headquarters and the local peacekeeping operation. To ensure that the mandate of a peacekeeping operation is achievable as well as to encourage peace building on the one hand and for political reasons on the other hand, any outsourcing decision should have local input. When decisions are made far away from where they would be implemented, there is always a tendency that such decisions would not be sensitive to the local environment. Decisions on outsourcing made at a local level would tend to encourage outsourcing to local service providers, while headquarter level made decisions would recommend contracting larger and international service providers. The decision reached invariably determines the choice of service providers. Local service providers, though smaller, tend to enrich, empower and support the local economy. Headquarter level made decisions to outsource to larger service providers should be reserved for only highly technical and sensitive services that cannot be provided locally. Examples include supply of medical and communication equipment.

Until recently most outsourcing relationships with successful outcomes originated from a variety of consultants and experts aided decision process. However, until the 1990's, there was no other pool from which to draw expertise necessary to craft a highly successful outsourcing engagement. Presently a growing pool of in-house managers with prior experience has facilitated the growth of this new trend in outsourcing decision-making (Goolsby, 2003).

As outlined above, though the use of experts to assist in the analysis of an outsourcing decision may provide external validity to the decision and decrease any risks associated with outsourcing, however, peacekeeping operations as part of the UN and being non-profit would tend to use less experts, compared to the manufacturing sector, to assist in any outsourcing decision. The probable reason is the institutional settings of the organization.

A key finding of a study on decision-making processes revealed that outsourcing organizations with experienced in-house managers are not only cost effective replacements of external consultants and experts but also of similar value in achieving successful outcomes. Goolsby (2003), used an example to buttress the point, a commander would not put an entire nation and economy at risk solely on the advice of an experienced commander, in one or even several conflicts. An outsourcing organization's top management must consider whether experienced in-house managers' knowledge is relevant and comprehensive for the outsourcing decisions at hand and the relevance of this knowledge has to be well defined. Though there may be similarities, each outsourcing initiative is a unique business case of its own and thus requires a different set of knowledge. Moreover, unlike outside experts and consultants, experienced in-house managers and experts are not exposed to the market on a daily basis.

Furthermore, Eger *et al* (2002) indicated in his study that manufacturing firms and public sector firms are similar with respect to making any outsourcing decision without the assistance of experts. However, the use of outside experts is advisable because it brings in new and unadulterated ideas into any organization. While Goolsby (2003) was of the view that experienced in-house managers' and experts' knowledge are highly valued and can be blended with those of outside experts and consultants to ensure the outsourcing organization gets the best of both worlds. Therefore any decision to use in-house manager and experts should be based on whether the expert is able to structure an outsourcing engagement that produces the desired objectives and also reduce the high error rates.

The UN uses experts for assessments or advice on reforms. A typical example was in 2001, the Panel on United Nations Peace Operations called “the Brahimi Panel,” composed of individuals experienced in various aspects of conflict prevention, peacekeeping and peace-building, which was requested by the UN Secretary-General to assess the shortcomings of the existing system and to make frank, specific and realistic recommendations for change. The Brahimi Report Panel is an example of the use of experts to advice on reforms.

Though the UN does not use experts to advice on outsourcing requirements and engagements, however, it is assumed that in its peacekeeping operations it would use fewer or no experts than the manufacturing sectors to assist in the outsourcing decision-making. The question arises with respect to how benchmarks are used to establish outsourcing goals. Benchmarks used by the UN are based more on laid down policies and procedures than on past experiences. Moreover, the benchmark used most often by the groups in the study by Eger *et al* (2002) is previous history with outsourcing experiences, which is an indication that institutional history plays a critical role in the decision-making process for public sector organization. However, Eger *et al* (2002) indicated that caution should be taken not to translate lessons learnt from private sector outsourcing lessons to the public sector.

Goolsby (2003) went further to highlight criteria to guide outsourcing organizations towards the use of experts in outsourcing;

- The consultants or expert must have a very good knowledge of the outsourcing organization’s industry, best practices in the functions to be outsourced, including an insight into the providers market as well as comprehensive experience and skills;
- The services of an external expert or consultant should compliment the outsourcing organization’s existing decision making-process;
- The outsourcing consultants or experts should challenge the outsourcing organization’s existing assumptions;
- There should be a holistic evaluation of the proposed initiative within several alternative scenarios;

- Outside consultants or experts should revolve around a methodology that includes an executable project plan for structuring the work and yet be flexible for the outsourcing organization's unique situations.

Goolsby (2003) recommended that where outsourcing organization objectives are easily achievable and outsourcing is a foregone conclusion, in-house managers or experts and external experts are supposed to be of similar value. Furthermore, in situations where outsourcing organization objectives are more strategic and complex, there is a higher incidence of using external experts in the decision-making process. Therefore, external consultants or experts are recommended based on their robust knowledge, comprehensive experience and insight and also because they ensure that outsourcing objectives are achieved.

Though the general advantages of outsourcing have been recognised, however, it has failed to address a number of uniquely public sector concerns. These fears may altogether eliminate outsourcing's advantages or in some cases even put organizations at risk. Therefore, care should be taken when considering outsourcing projects, as well as attention to accountability, economies of scale, and competition. A recurring argument in many works on the subject is the need for accountability and oversight. This is due, critics claim, to the potential for outsourced private sector service providers to fall back in the provision of services to sub-optimal levels of service in pursuit of profit (Eger *et al.*, 2002).

A solution recommended by the private sector to address this issue is performance contracting. However, the UN may not have such an option available. Usually, outsourcing practices by the UN and most non-profit making organizations recommend a strong monitoring mechanism, perhaps even through a third party or an oversight committee (Wallin, 1997). In the UN the Office of Internal Oversight Services (OIOS) is used.

However, despite a global interest in incentive payments for performance, so far very little effort has been devoted to evaluating their effectiveness in the public sector. The limited evidence suggests that incentive payment has not had the kind of motivational



impact its proponents were seeking. While incentive payment is theoretically an ideal way to reward merit in the public sector, its implementation is often riddled with difficulties. In addition, the experience of some Organization of Economic Cooperation and Development (OECD) countries with incentive payment in the public sector has not been altogether satisfactory, particularly because policymakers often do not adequately understand the complexities involved in administering such a system. Public sector organization would neither offer incentive payments in-house nor use them to induce performance of service providers in public sector outsourcing (Klareskov and Helgason, 2005)

According to a study by Klareskov and Helgason (2005), outsourcing is said to bring improvements in service delivery, as a properly managed contract requires a systematic approach to monitoring and quality assurance. It also takes advantage of skills and technology available in the private sector and is increasingly adopted to provide back-office operations. However, numerous examples demonstrate that outsourcing should be undertaken with great care. A recent experience in the municipality of Copenhagen in Denmark illustrates this point. In 2003, the municipality outsourced pay roll management of 50,000 employees to a private consulting company, envisioning cost savings for the municipality of around \$7 million over six years. Yet the outsourcing is now expected to increase costs by \$6 million in 2005 alone.

Another study carried out by Johnston and Romzek (1999) describes a number of concerns about the management of outsourced Medicaid contracts in Kansas, USA. It was argued that the costs of monitoring outsourced service contracts removes any gains derived from the reform. According to their analysis, the same possibility exists in all outsourcing contract, especially in situations where performance measures are absent. A similar effect has been observed in several outsourcing projects in which a lack of available third party providers magnified existing inefficiencies (Herbst, 1999). In short, when outsourcing happens for political reasons or other short-term gains, it may have the opposite effect. This is the situation when outsourcing engagements are used to appease politicians and /or local economies of peacekeeping host nations in the name of nation building. To make matters worse there is an observed tendency for public organizations to amend their policy goals and expectations in order to appease an outsourcing cause or to match a service offered by a service provider. Johnston

and Romzek (1999) considered this phenomenon as being contrary to outsourcing expected result.

Successes associated with outsourcing are sometimes attributed to wrong causes. The origins of observed savings are often credited to the private sector being able to reorganise work activities and production units, take advantage of economies of scale, and substitute between inputs toward more capital. Savings may be due to either poorer quality in service delivery or the least qualified being employed instead of public sector employees. Therefore to successfully contract out work, public sector managers need to be realistic about the trade-off between complexities (risks) and gains in terms of savings. Therefore when contracting out functions and activities managers should move towards an equilibrium where realistic ideas are nurtured about the potential for savings while at the same time abstaining from outsourcing exceptionally complicated tasks because they have an inherent risk of failure. Therefore, organizations should consider addressing risk assessment and risk transfer as part of the process for procuring services. This will mean that risk assessment forms part of the policy and procedures for outsourcing (Atkin and Brooks, 2005). The foremost lesson learned through this type of experience is that sometimes keeping functions in-house makes sense. Outsourcing is not a magic wand that will fix all the perceived ills of the public sector. Instead, it poses great demands on the capacity and expertise of staff to perform credible assessments of outsourcing opportunities. In addition, the transaction costs of preparing for competitive tendering and subsequent monitoring costs sometimes simply outstrip the benefits of contracting out. (Klareskov and Helgason, 2005)

In conclusion Klareskov and Helgason (2005) explained that the case for public sector outsourcing is that management and information systems necessary for effective outsourcing can be equally valuable in improving performance and cutting costs for services already provided by public organizations. In other words, if the same amount of attention and resources used in assessing the potential to outsource, selecting the right outsourcing partner, and ensuring effective implementation and monitoring would instead be spent on improving existing systems, positive results are equally probable.

The next section outlines why it is essential to have a clear understanding of outsourcing opportunities and expected results before entering into an outsourcing engagement

### 2.3.2 Why Outsource

There are several reasons why organizations choose to outsource. According to the State of Texas, Department of Information Resources (1998), the IT industry being one of the most heavily outsourced industries has various reasons for outsourcing; however, there are several decisive reasons which are applicable to most organizations, whether profit or non-profit making, and these include:

- Cut costs;
- Increase profitability and productivity;
- Faster start up and development;
- Provide better services at lower rates;
- Increase share holders value;
- Increase security and reliability;
- Concentrate on core competencies;
- Stay on top of competitors;
- A cost-effective use of equipment and materials;
- Access to expertise;
- Better price/performance ratios may also be achieved through outsourcing parts of the data centre operation rather than outsourcing the management entirely;
- Cost savings through service provider economies of scale for buying and managing equipment;
- Data centre consolidation can lead to clear cost savings through economies of scale and efficient use of equipment;
- Economies of scale for provision of connectivity and hardware;
- Eliminates infrastructure costs and infrastructure management costs;

- Equipment and staff necessary to develop a complex site (e.g., involving database connectivity, on-the-fly updates, and multiple information formats) can be expensive;
- Greater levels of scalability;
- Industry sites with high levels of usage, or which expect occasional significant spikes in visitors, will often benefit from outsourcing;
- Internal resources freed to work on development projects;
- Maintenance of licenses and version upgrades;
- Standards are easily developed;
- Outside service provider may be able to free internal resources for more effective tasks;
- Outsourcing can address the need for technology refreshment and solve difficulties with staff retention;
- Resources can be reassigned to new applications development and other strategic functions, although staff reductions can also result from these deals in order to reduce operating costs;
- Staff time and effort required to maintain services;
- To encourage business process change and culture changes in an organization that is unable to create change from within;
- To ensure a standard of expertise for off-the-shelf software used by the organization;
- To ensure particular levels of support for end users;
- To meet strict time lines for a short-term project;
- To take advantage of area expertise; and
- Service provider economies of scale

In the early days, costs of headcount reduction were one of the common reasons for outsourcing but in today's world, the reasons are more strategic and focus on carrying out value-adding activities in-house and where an organization can best utilise their core competencies. Despite these advantages however, such arrangements must be managed carefully, with special attention paid to delivery schedules, the rate of progress and end-user satisfaction. In the IT industry for example, care must be taken

to ensure that responsibilities of a contractor are clearly delineated according to the end user needs and end results desired. Clearly defined outcome success standards are crucial to the success of these contracts, as is a service provider's relationship with the organization (State of Texas, Department of Information Resources, 1998 and Cloete, 2002).

Alexander (1996) was of the view that factors other than costs are of significance in any decision to outsource. Accordingly, achieving lower cost is of little significance if the principal goals are not attained. Getting value through the application of incentives, quality management through partnership outsourcing should be the main goal. Furthermore, he emphasised that to make any sensible decision about outsourcing, the following reasons should be considered:

- Skill shortages;
- Manpower shortages;
- Inflexibility;
- Lack of specialist knowledge; and
- Lower cost

On partnership, Grossman and Helpman (2003) considered three essential features of a modern outsourcing strategy. First, firms must search for partners with the expertise that allows them to perform the particular activities that are required. Second, they must convince the potential suppliers to customize products for their own specific needs. Finally, they must induce the necessary relationship-specific investments in an environment with incomplete contracting. Additionally, once a final producer has identified the supplier whose expertise is most suitable to its needs, the two firms can begin to explore a bilateral relationship in the light of the local legal environment (Grossman and Helpman, 2003).

On cost, Alexander (1996) was also of the view that where there is limited external market in the provision of services and an organization can accommodate the cost through appropriate salary structure, in-house provision would be the preferred route, while in other circumstances outsourcing would be ideal. Though external market

costs can tend to be lower for providers that specialize in a given service, internal management and procurement costs of an outsourcing organization would apply. For non-core functions, outsourcing would be a financially preferable option provided an appropriate management structure exists internally, the costs of which still have to be considered.

Klareskov and Helgason (2005) suggested that the potential for cost savings when contracting out is proportionate to the complexity of service needs in the public sector. The dilemma is that the greater the complexity of the tasks to be outsourced and potential cost savings is involved, the larger the risk of failure because of the high transaction costs involved. Managers sometimes underestimate the risk of outsourcing due to an insufficient understanding of the complexity of the services needed.

Outsourcing is designed to address these risks but unfortunately it can cause greater risks than those it is supposed to control. Cost savings gained from outsourcing sometimes do not compensate for the benefits lost from not maintaining an in-house function. The secret of successful outsourcing is thus two-fold: Organizations must ensure that they gain from the intended benefits, but they must also avoid being impacted by inherent risks. Therefore, the focus on a decision to outsource must ensure that core objectives of outsourcing organizations are met through the use of appropriate risk analysis technique and the most suitable contract strategy can be identified. Given these realities, internal auditors should be used to examine risk exposures in three areas of outsourcing, namely the contract, the decision-making process for determining whether to embrace or continue outsourcing, and the general outsourcing strategy (Leithhead, 1999).

Alexander (1996) further outlined that in developing outsourcing contract strategy, three issues must be addressed: Firstly how are the current services provided; secondly what are the optimum service structure(s); and thirdly how to move between the two points. These, he considered as the fundamental elements of an outsourcing strategy which should be in place before outsourcing is considered as an option.

Internal auditors are usually not expected or required to audit management's decisions, per se, however, they can assist top management by evaluating the process used to

determine whether or not a function should be outsourced. In particular, auditors should review the decision criteria and the relevance and quality of information on which decisions are based. Organizations often risk making poor decisions because they employ wrong strategies. Therefore, an essential component of managing decision-making risks involves developing appropriate outsourcing strategies which are designed to position an organization favourably in relation to dynamic contexts, such as the market and other forces that shape an organization's business environment. On a practical level, an organization develops an outsourcing strategy to build its resources through strategic alliances, rather than just to abandon an activity it finds difficult to manage. When the strategy is well thought out, the decisions and contracts that apply to the strategy are more likely to be successful. Outsourcing strategies are placed at risk when management's objectives, perspectives, and expectations are incorrect (Leithhead, 1999).

Since risk analysis provide the foundation for risk management throughout the life of an outsourcing engagement, it is essential to consider how to eliminate or reduce risks, while considering costs of risk management over the life of an outsourcing engagement. This would give an indication of whether risks change the feasibility of outsourcing.

To analyze risks in an outsourcing engagement or any other management judgments, internal auditors must be in the right place at the right time that is they must know what is going on in the organization, possess the capability to contribute, and have that capability recognized and accepted by management. It is for this reason that internal auditors must begin their analysis of outsourcing exposures with contracts, and then earn the right to be involved with decisions, and move on to corporate strategy (Leithhead, 1999).

Despite several UN resolutions on outsourcing, the UN has made limited attempts at outsourcing its non-core function. Examples include the UN General Assembly resolution, A/59/289, which requested the Secretary-General, inter-alia, to continue to consider outsourcing actively in accordance with the guidance and goals contained in paragraphs 1 to 3 of Assembly resolution A/55/232, and according to "The challenge of outsourcing for the United Nations system" (A/52/338) and (A/52/813) of the

office of internal Oversight Services on review of UN procurement reforms. According to one of these reports, A/53/818 of 1999, “Outsourcing Practices” which was submitted by the UN Secretary-General to the General Assembly, four basic reasons were identified and these should be considered when embarking on outsourcing (United Nations General Assembly, 1999):

- a. The Secretary-General should continue to ensure that programme managers are guided by the following four basic reasons for outsourcing:
  - To acquire technical skills not readily available within the Organization, including accessing state-of-the-art technologies and expertise or acquiring needed flexibility to meet quickly changing circumstances;
  - To achieve cost savings;
  - To provide a source more effectively, efficiently or expeditiously; and
  - To provide an activity or service not needed on a long-term basis;
  
- b. At least the following three significant goals must be considered with regard to the use of outsourcing by the United Nations:
  - To respect the international character of the Organization;
  - To avoid a possible negative impact on staff; and
  - To ensure appropriate management and/or control over the activities or services that have been outsourced;

The UN outsourcing policy is designed to ensure consideration of outsourcing as part of the organization’s regular management decision-making process which should be based on transparent procedures and with due regard for the respect of its staff members. The policy has five main features:

- It is limited to the provision of non-core support activities and services;
- It provides criteria for deciding when a services/activity/function should be outsourced;



- It requires a thorough pre-contract bidding process before making an outsourcing decision; and
- It requires a thorough contract administration by ensuring that contractors' performance is properly monitored and evaluated

Though the UN considered it important to outsource for almost the same reason as most organizations, it however did not consider it as a complete solution to cost effectiveness. Present outsourcing applications are limited to few outsourced functions such as cleaning and catering services and presently IT in some peacekeeping operations.

There are many reasons why organizations outsource various jobs, but the most prominent advantage is the fact that it often saves money. Many of the organizations that provide outsourcing services are able to do the work for considerably less money, as they do not have to provide benefit to the workers and have fewer overhead expenses to worry about. Successful outsourcing has been demonstrated to provide organizations with a number of benefits, most of which result from improved efficiency. Outsourcing also allows organizations to focus on other business issues while having all details taken care of by outside experts. Through the emphasis of essential or core functions, an organization is able to rationalize its operations by maintaining only those resources considered essential to its mission or business model. This means that a large amount of resources and attention that might fall on the shoulders of management professionals can be used for more important broader issues within the organization. Undoubtedly, intra-organizational or non-core functions such as information technology, equipment maintenance, custodial services, and others are critical to effective and consistent operations.

But to date, the private sector experience has shown that specialized service providers are typically able to deliver such services with comparable or better quality, and often at lower costs, than in-house providers. Specialised service providers that handle outsourced work are often streamlined and often have world-class capabilities and access to new technologies that some organizations may not be able to afford to buy on their own. When organizations streamline their facilities, effective outsourcing also

allows them to expand their market share, pursue new strategic directions, and improve overall competitive advantage. As a result, organizations in both the private and public sectors have several incentives to explore their outsourcing options (Eger *et al*, 2002)

In an article on outsourcing advantages by bizrim.com, an information portal on the Word Wide Web, regarding outsourcing to third world developing nations such as India, China, Philippines, Mexico, Ireland etc organizations can exploit the cheap labour and infrastructure facilities available in those lands and in-turn cut back on manpower costs, reduce operational cost and capital expenditure. While outsourcing may prove highly beneficial for many organizations, it also has many drawbacks. One of these is that outsourcing often eliminates direct communication between an organization and its clients. This prevents a company from building a solid relationship with their customers, leading to dissatisfaction on one or both sides. There is also the danger of not being able to control some aspect of the organization, as outsourcing may lead to delayed communication and project implementation. Sensitive information becomes more vulnerable and an organization may become very dependent upon its service provider, which could lead to problems, should the service provider back out on their contract suddenly.

Wisegeek.com another information portal on the World Wide Web, stressed the importance of each individual company accurately assessing their needs to determine if outsourcing is a viable option. To date, public sector outsourcing has earned a mixed record of success, failure, praise and criticism. Although outsourcing began with small-scale, easily monitored services such as cleaning and catering services, UN have recently attempted to outsource more stylized services such as job training, humanitarian and logistics support through non-governmental organizations (NGO's), UN agencies and service providers. However, most outsourcing engagements are not with private sector service providers but rather with other UN bodies, agencies and affiliates.

According to Cloete (2002), a typical outsourcing objective statement would be: "To attain major savings in the provision of non-core services and associated cost by

partnering with the most complete supplier while maintaining current service levels and limiting the exposure to risk.”

Although the concept of making UN on the whole and peacekeeping in particular, more cost-effective and effective started in the late 90s with various reform proposals and resolutions including the “Brahimi report” to the UN Secretary-General, however, the thesis will go a step further by recommending ways to making peacekeeping operations and therefore, the organization as a whole, more cost-effective and efficient. These recommendations will highlight the importance of using appropriate decision-making criteria in developing an outsourcing scorecard, to gain all the advantages of an outsourcing engagement with the aim of making the UN, more result oriented while maintaining a higher level of efficiency.

A vital reason for advocating the outsourcing of peacekeeping operations is because being non-profit making, they therefore fall into the categories of offices that require rigorous improvement in order to be more result oriented and more efficient in the use of allotted funds. For example, peacekeeping operations approved budgets for the period from 1 July 2004 to 30 June 2005 was \$4.47 billion. Consequently it has become necessary to identify solutions to be employed to reduce the high cost of peacekeeping which has become an inevitable part of peace and security worldwide. The thesis has recognised outsourcing as one of the cost effective solutions in reducing the high cost of peacekeeping. However this requires that most of the functions and activities of peacekeeping, especially all the support services/activities presently being carried at headquarter level and on the field will have to be outsourced to enable the peacekeeping operations focus on its core functions of maintaining peace and security worldwide.

Should the UN accept to outsource a peacekeeping operation in its entirety, the decision to outsource would be the sole prerogative of a relevant committee of the GA.? However, in the field, the Special Representative of the Secretary-General (SRSG), his Director of Administration (DOA), the Chief of Administration (CAS) and the Chief Integrated Support Services (CISS) as the heads of the administrative and support components of the peacekeeping operations respectively can make recommendations backed by practical field situations on the cost-effectiveness of

outsourcing some or all the non-core functions of the organization. The field situations are usually dictated by actions on the ground. Once the GA agrees in principle that peacekeeping operations have to be outsourced, DPKO would set the ball rolling by asking their field manager, the SRSG, at the peacekeeping operation to identify or confirm the services that can be outsourced.

Barrett and Baldry (2003) explained that a final decision on an outsourcing strategy that is expected to be adopted will directly impact upon the overall performance of the outsourcing organization. Critical aspects of a decision-making process would include the appropriate specification of service levels, the vetting and selection of service providers, the terms of the outsourcing relationship and monitoring of service quality. Therefore, it is important that all issues are considered before outsourcing is embarked on. This assessment should take into account all factors, both local and generic.

Outsourcing like globalization is a phenomena or rather an evolution that was waiting to happen. There may be oppositions and speculations about outsourcing but the success stories by far outweigh the others. However, it is the ultimate decision of the organization to decide what is appropriate. Having a vision, better planning and good outsourcing knowledge would result in an outsourcing success story.

The thesis aims at presenting the advantages of applying right decisions criteria to create a decision-making scorecard that would ensure the application of outsourcing advantages to all facets of UN peacekeeping operation in order to gain the real and complete rewards of outsourcing.

### 2.3.3 What to Outsource

When outsourcing first entered the management arena in the 1980s, it was all about saving money on essentially manual tasks; premises cleaning was a typical and early example. The focus is now on access to skills, with outsourcing expanding to include areas closer and closer to the centre of business; companies are now looking to buy in outside expertise so that they can concentrate on their own core activities, and contract with external suppliers to provide many or most of the tactical elements (Booty, 2009).

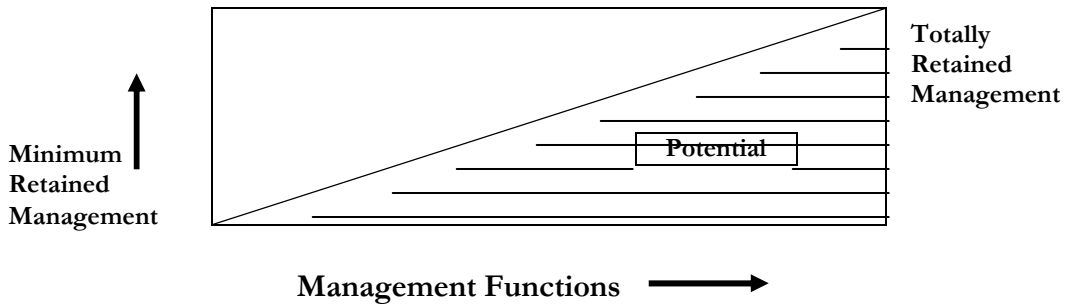
What can be outsourced are usually support services. Traditionally in-house staffs were employed to carry out these support service but that changed as pressure grew on business and on direct employment practices and they began to be eroded, slowly at first by new external services providers.

Providing support services is a complex and evolving business especially in a market that is constantly changing. However, how they are provided is often based on an organization's historical growth pattern. Accordingly, older organizations with decades of in-fighting and personal growth behind them, often display peculiar and seemingly illogical grouping of support services, whereas for others it depends on an the organization has evolved in its allocation of managerial responsibilities and whether this was done in a strategically planned manner or as simply a historical legacy (Alexander, 1996).

Therefore support services should be provided according to two major drivers, namely total quality and incentive based performance standards. They may be provided by in-house resources, by external service providers or by a combination of the two. Due to increased complexity of relationships between outsourcing organizations and providers as they evolve to meet demands of dynamic businesses, the provision of support services will continue to grow and become broader. Furthermore, this provision has to be based on the worth that the service brings to organizations in terms of increased satisfaction, productivity and motivation (Alexander, 1996).

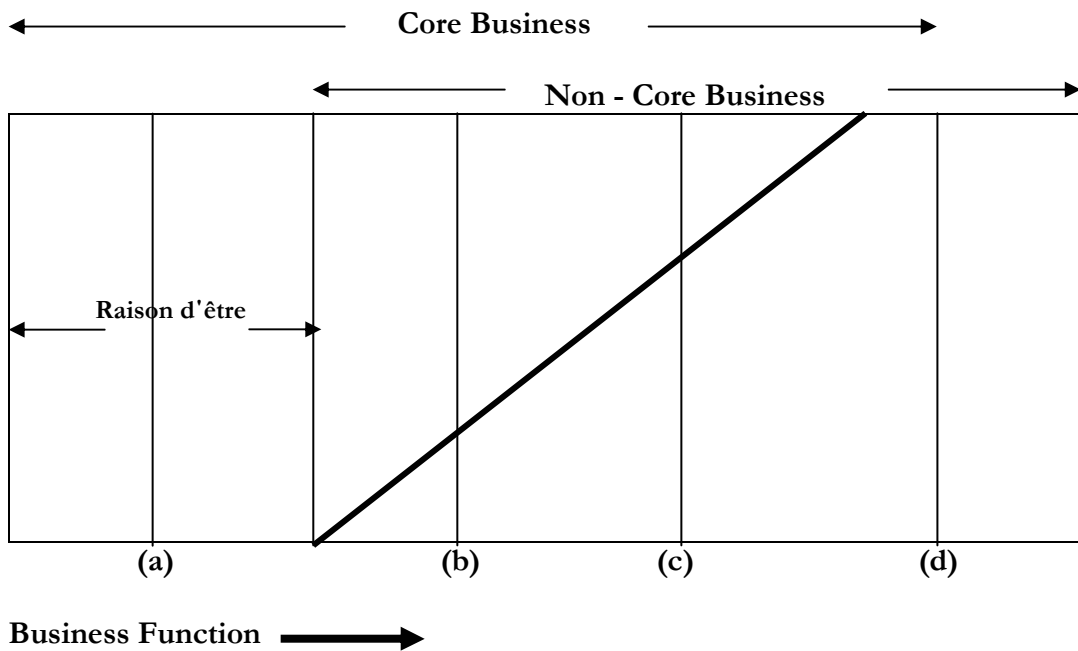
However, according to Manring (2001) as outsourcing become both more all-encompassing and very important, the burning question is no longer whether an organization should outsource but rather what should be outsourced. Furthermore, Tracey (1998) indicated that the decision-to outsource involves the identification of the services that have the potential for successful outsourcing through a review of the current support services. Therefore, when identifying and evaluating business functions and services that are appropriate candidates for outsourcing, Bendor-Samuel (2001b) pointed out that it should be borne in mind that outsourcing is composed of two elements: Value creation; and Value capture. The first section determines if

organizations can actually divest from a specific business process whereby a provider can handle the supply chain management function or would it be more cost effective to let a provider take over payroll. If the answer is affirmative then the next process should focus on business process outsourcing provider and whether value would be created if a provider takes control of the process.



**Chart 11** Potential for outsourcing  
**Source:** Barrett and Baldry (2003). Page 154

Barrett and Baldry (2003) agreed with Tracey (1998) and indicated that the potential for outsourcing relates to the optimum balanced between retained services and those outsourced. Therefore, the larger the in-house resources, the greater the potential for successful outsourcing, provided all other considerations are satisfied (Chart 11).



**Chart 12:** The core/non-core business continuum  
**Source:** Barret and Baldry (2003). Page 156

In Chart 12, Barret and Baldry (2003) used an arbitrary interface between core and non-core business. The key point is that the interface is not shown as a vertical divide which accommodates the notion that the business can be:

- Wholly core business;
- Wholly non-core business; and
- Part core, part non-core.

The diagram depicts that wholly core business can be thought of as *raison d'être* or core functions of a given organization. Therefore, the potential for outsourcing, according to this model, is the ability to encompass more than pure support services (or non-core business activities) such that the potential is enlarged and so is the flexibility to enable these services to be revenue earning. Furthermore, adherence to a strict core versus non-core split can be a barrier to developing the full potential of a service considered for outsourcing or for the outsourcing of services to make an added-value contribution to the organizations. It is therefore a barrier to effective outsourcing resource decision-making (Barret and Baldry, 2003).

On value creation, Bendor-Samuel (2001c) was of the opinion that once there is an understanding of where the value is, a solution can be shaped to maximise the benefits. However, if an organization does not know what to protect in an outsourcing engagement, they may create outsourcing agreements that would actually dilute the benefits that could have been accrued from the relationship. Petrick (1996) agreed that an outsourcing process should begin with recognition of a need. The project or process to be outsourced should be defined in a statement of assignment. If views on the subject are not clear, the point should be highlighted in initial discussions with providers. Final parameters of an outsourcing engagement must be clearly articulated and mutually agreed upon. The appropriate volume of outsourcing of an organization depends on in-house capabilities, current capacity, near-future workload, the focus necessary, time lines, specific expertise needed to achieve the desired outcome, and of course, the budget. Furthermore, he agreed with the vital importance

of carrying out initial assessments of potential projects to determine whether they can be outsourced:

The assessment should provide answers the following questions.

- Can the outsourcing organization do a better job than could be done in-house, given current staffing and workload?
- Does the outsourcing organization have better equipment and/or technology?
- Can the outsourcing organization do it faster?
- Would it lead to a better focus on core-issues of the organization? and
- Is it cost effective?

Petrick (1996) was of view that if answers to these questions are positive, the project is a good candidate for outsourcing. Furthermore, Bendor-Samuel (2001c) considered generating value as one of the most attractive aspects of outsourcing. This involves handing over an important but non-core process to an expert which provides a host of benefits that includes:

- Economies of scale;
- The ability to use lower cost employees located elsewhere;
- Access to capital; and
- Process expertise

Bendor-Samuel (2001c) recommended that an outsourcing organization should not ignore the value outsourcing generates and therefore, no other considerations should override their efforts to capture the value inherent in outsourcing relationships. Therefore, if a service is not expected to generate value, it should not be considered for outsourcing. Furthermore, these common mistakes should be avoided to capture the value outsourcing brings to an outsourcing relationship.

- Focusing on costs only, to the detriment of other values a provider could bring to the table;
- Using the wrong method to attain goals;
- Not providing any penalty and reward system in the contract;



- Unclear definition of the scope of accountability;
- Eliminating the opportunity for aggressive provider prices;
- Writing a one-sided contract;
- Telling the provider how to execute the contract; and
- Failing to understand our limitations.

Accordingly, if the value to be derived from the outsourcing engagements is not known from the onset then outsourcing contracts can dilute the possible benefits that could be derived from them (Bendor-Samuel (2001b)). Therefore, it is very essential to first identify where the value lies before starting an outsourcing engagement to ensure that all benefits are fully reaped. Thus, it is recommended that more than one process be assessed when studying value creation. The reason is that since all business process interlock, scrutinizing them all at once helps organizations in appreciating any potential synergies available and the challenges that have to be faced, especially when IT is involved.

After values have been assessed and scrutinized, subsequently back office operations that are highly tedious and require specialised attention should be outsourced to reduce costs and ensure effective use of resources. These operations are usually critical for an organizations' progress. By outsourcing these businesses, organizations can better concentrate on their core competences while their back office operations are run by specialised third party organizations.

The shift from those early manual tasks has seen us move through other administrative and infrastructure areas, towards innovation: how can the company move further ahead faster than the competition? Outsourcing today and the expertise that comes with the specialist contractors has now embraced research and development (Rand), design, product management, marketing, communications, even personnel supply and management. That development has not finished. Already into strategic functions, it is not unlikely that outsourcing of core business areas, and even the strategic direction of the company, could follow (Booty, 2009). According to a report, A/53/818 (1999) of the UN Secretary-General on outsourcing practices, outsourcing is contracting with a third party to provide non-core activities and services, including related goods which can also be provided by United Nations staff.

The report refers to these non-core activities and services as support functions which can be outsourced as, but not limited to:

- Accounting;
- Payroll;
- Internal Auditing;
- Building maintenance;
- Bookshop/gift shop;
- Cleaning services;
- Catering;
- Grounds/gardens maintenance;
- IT;
- Postal services;
- Medical services;
- Printing and publishing;
- Recruitment; staff counselling;
- Security;
- Training;
- Warehousing;
- Transportation (ground, sea and air); and
- Travel services.

The report ended with the conclusion that these and other similar services may be outsourced however it does not include the procurement of goods and excludes the replacement or supplementation of staff by non-regular staff. The outsourcing engagement has its limitations, in that it does not cover contractual relationships with individuals, labour contracts or one-time service assignments given to corporate or institutional contractors. Eger *et al.* (2002), in their work on evaluation of transport organization outsourcing, identified information technology, asset management, material distribution, warehousing, fleet management, facilities management, security, medical services, engineering services, aviation and supply as commonly outsourced services in the manufacturing industry, US Department of Transport and Third Party

Logistics Service Providers in the United States. It is my opinion that these services are also common non-core tasks in the UN that should be outsourced. Presently some peacekeeping operations have begun to outsource more functions such as aviation and heavy duty maintenance, security and medical service, while the UN secretariat presently outsource payroll and travel services. While in the IT industry, the State of Texas, Department of Information Resources, (1998) identified the following services as the most commonly outsourced services.

#### *Web Site Development and Maintenance*

The growth of the Internet has led to an explosion of interest in Web sites and Web traffic. Planning out the requirements of an organization site and the use of new technologies or service provision methods will benefit a staffing decision process. Web site management is still relatively new, meaning that standards are still underdeveloped.

#### *WANs*

Wide area networks (WANs) are often primary candidates for outsourcing cost comparisons because economies of scale and service provider efficiencies are significant. Outside service providers may be better able to offer repair, maintenance, and added resources to handle peak request loads. If, however, the communications provide “front-line” services, such as representing an organization to clients, the communication is so critical to the organization that the loss of control is too high of a risk to take. Equipment costs and service charges can be compared to other service providers to ensure a fair price is set.

#### *LANs*

Local area network (LAN) services are increasingly popular as candidates for outsourcing, but can also entail higher risks because of the importance of

network connectivity and speed to the enterprise. Many of the same standards that are applicable to WAN also apply to LAN.

#### *Desktop Management*

According to the State of Texas, Department of Information Resources, (1998), a service provider must clearly understand its responsibilities and how payment for services is determined. Determining cost savings can be difficult, as hidden support costs are now made explicit by the service provider. Thus, costs may seem higher for outsourcing; Outsourcing benefits can be lost if end users are charged for support, compelling them to rely on non-IT resources for assistance. The quality of service/service level standards is crucial. The goal is to measure end user satisfaction, performance improvements, and cost reductions in the total cost of ownership for the IT architecture. Benchmarking service provider performance against other service providers can also be useful. Current service levels should be used as a primary benchmarking tool before outsourcing areas such as help desk management

#### *Applications Maintenance*

Time line measurements such as problem resolution time will be useful. Quantitative standards measuring business case improvements (i.e., faster caseload processing) must also be included. Stating the opportunity costs of staff time will be useful for identifying best uses of existing resources.

#### *Applications Development*

Despite the outsourcing advantages, such deals must be managed carefully, with special attention paid to delivery schedules, the rate of progress and end-user satisfaction. Care should be taken to ensure that the responsibilities of a contractor are clearly delineated according to the end user needs and end results desired. Security considerations are also important. Clearly defined outcome success standards are crucial to the success of these contracts, as is a

service provider's relationship with an organization. It is vital to focus on the development of deliverables, measuring business improvements in customer service or other value-added activities. There should be an actual measurement process for business improvements, rather than simply stating that a service improvement will be shown.

#### *Data Centres*

Mainframe/data centre operations were among the first IT items to be outsourced, as the emphasis was on consolidation of services to achieve greater economies of scale. Outsourcing all or parts of the data centre require an understanding of the role of the mainframe and other resources of an organization. If a development of new applications development remains important for the mainframe, then it is a strategic asset and outsourcing may not be the best option. If mainframe services are to be transitioned to client/server or simply kept as an "essential utility," then outsourcing those services may provide cost savings and business advantages.

#### *Disaster Recovery*

Disaster recovery services are important to any outsourcing contract. In any outsourcing effort, the organization must ensure that a service provider can continue to provide essential services in case of a disaster or other business interruption(s). Resources responsible for outsourcing management should also be aware of who disaster recovery planners are within an organization. Care should be taken to ensure that any completed contract that comes back in-house for operation and maintenance is brought to the attention of the disaster recovery planners so that it is covered in the internal disaster recovery plan. Two useful standards in disaster recovery agreements are a map of estimated capacity increases against service provider charges for increases and a standard for processor capacity evaluation. The satisfaction of end users and increased operating efficiencies are generally desired IT outcomes.



**Table 6:** Salary Scale for UN Staff in the Professional and higher Categories showing Annual Gross Salaries and Net Equivalent after Tax Deductions (United States Dollars)<sup>7</sup>

**Source:** UN Secretariat Information Circular, ST/IC/2004/599, 31 December 2004

D = Rate applicable to staff members with a dependent spouse or child

S = Rate applicable to staff member with no dependent spouse or child

		STEPS														
Level		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	XIII	XIV	VV
<b>USG</b>	Gross	189952														
	Net D	127970														
	Net S	115166														
<b>ASG</b>	Gross	172860														
	Net D	117373														
	Net S	106285														
<b>D-2</b>	Gross	141974	145065	148156	515248	154340	157431									
	Net D	98224	100140	102057	103974	105891	107807									
	Net S	90236	91854	93466	95072	96674	98269									
<b>D1</b>	Gross	129405	132119	134832	137547	140261	142974	145689	148403	151116						
	Net D	90431	92114	93796	95479	97162	98844	100527	102210	103892						
	Net S	83587	85050	86509	87965	89418	90867	92312	93755	95194						
<b>P-5</b>	Gross	106368	108679	110987	113295	115605	117913	120223	122532	124842	127150	129458	131768	134077		
	Net D	76148	77581	79012	80443	81875	83306	84738	86170	87602	89033	90464	91896	93328		
	Net S	70742	72014	73282	74550	75815	77077	78338	79755	80852	82106	83358	84607	85855		
<b>P-4</b>	Gross	86211	88303	90423	92650	94879	97106	99335	101563	103792	106108	108247	110474	112703	114931	117160
	Net D	63499	64880	66262	67643	69025	70406	71788	73169	74551	75931	77313	78694	80076	81457	82839
	Net S	59132	60390	61647	62901	64155	65407	66659	67909	69157	70405	71651	72896	74140	75383	76625
<b>P-3</b>	Gross	69779	71715	73656	75589	77530	79467	81402	83342	85280	87217	89156	91161	93226	95287	97350
	Net D	52654	53932	55213	56489	57770	59048	60325	61606	62885	64163	65443	66720	68000	69278	70557
	Net S	49149	50325	51213	52678	53856	55030	56206	57383	58558	59734	60906	62079	63250	64422	65594
<b>P-2</b>	Gross	56465	58056	59643	61344	63077	64809	66542	68273	70008	71742	73473	75209			
	Net D	43655	44800	45943	47087	48231	49374	50518	51660	52805	53950	55092	56238			
	Net S	40947	41985	41503	44057	45092	46130	47184	48234	49298	50341	51392	52447			
<b>P-1</b>	Gross	43831	45358	46883	48413	49938	51464	52992	53519	56043	57571					
	Net D	34558	35658	36756	37857	38955	40054	41154	42254	43351	44451					
	Net S	32599	33612	34625	35638	36650	37662	38676	39676	40672	41668					

<sup>7</sup> Effective 1 January 2005

As outlined earlier, the core function of most typical peacekeeping operations is purely political. However, there are other peripheral activities carried out in peacekeeping operations which should not be performed in-house. However, these non-core functions sustain and support peacekeeping operations. In identifying what is to be outsourced it is observed that outsourcing most of these activities that are non-core in nature would create value for an organization and lead to a better business focus on the organization's core function. Outsourcing of these services may also lower the high cost of social benefits (medical and pension subsidies) paid to staff member compared to what would be paid to service providers. In addition the outsourcing of peacekeeping operation support operations may also result in a reduction of staff at peacekeeping operations world wide and at the UN Secretariat and DPKO headquarters staff at New York. This reduction would free much needed resources that are tied up in providing remunerations for its staffs (Table 5).

In my opinion, the essence of advocating outsourcing for the UN is based on the fact that an organizations' objective in outsourcing its non-core function may be achieved should it lead to a significant reduction or control of fixed and variable costs while still remaining efficient and effective in providing support services required in accomplishing the organization's mandate and lower costs due to economies of scale and better control of its budget. It is important to outsource what we are familiar with. Often areas that are poorly understood or projects that use unfamiliar technologies are targeted for outsourcing. This puts an added burden on staff to manage a contract and a service provider dealing with technologies that they do not understand. Outsourcing should not be seen as just a money-saving management device or tactic, but considered in terms of the potential value it can bring to a business. It may cost more to outsource, but the job may be better performed, the company image may be enhanced, and it may release expensive management time for core activities (Booty, 2009). Lastly if an activity is not understood, an outsourcing organization cannot establish appropriate success measures for the service provider, verify service provider results, or even take over after implementation? It may be worthwhile to spend time and money to train staff on new technologies, so that familiar, well-understood, and well-measured activities can be outsourced thereby making contract management much easier.

## 2.4 THIRD PARTY LOGISTICS SERVICE PROVIDERS

The view point of third party logistics service providers or simply service providers, in relation to outsourcing concerns and practices as identified by the manufacturing sector are examined in this section. Both small and large providers are discussed with private and public sector organizations chosen to contrast their outsourcing practices.

According to Tracey *et al* (1998) outsourcing developed initially with a single service being contracted out such as cleaning, catering and security. These were later followed by maintenance, gardening/landscaping, mailroom and space planning which were controlled by in-house managers. This development continued with multi-tiered services and multi-skilled operators into more strategic services that markets presently offer. This move into a total business support service made it very difficult to adequately describe and articulate what organizations wanted from an outsourcing provider. However, the most important aspect of outsourcing services to providers is the ability to maintain the flexibility to grow in the outsourcing industry. To ensure that organizations will thrive satisfactorily until they get the next contract requires that businesses are managed with an eye towards the future. It is then very important to know the next contract over the horizon.

Presently there are six issues facing outsourcing service providers. The question of whether an outsourcing agreement affords the service provider involved with flexibility to change their technology platform overtime is perhaps the No. 1 issue. Every service provider should ensure that they are able to change their technology as their business grows, otherwise, a customer could require one type of technology though a different type if provided to other customers. This however does not mean that a firm has to disappoint customers' requirements regarding service levels and technology refresh over time. Instead, customer's requirements should be met in a flexible fashion. Issue No. 2 is whether a service provider has the freedom to move services offshore or use subcontractors of choice as a cost-savings approach? To reduce costs, outsourcing contracts should provide for relocation of services and working with subcontractors of choice. Organizations will be required, by customers, to negotiate appropriate confidentiality provisions and may attempt to assert other



limitations on these rights. The key to securing this right is to guarantee clients seamless, high-quality service.

The third issue is what other measures does a service provider have to undertake to keep costs under control? If a “cost-plus” contract is not an option, other alternatives may include per-service fee increases. In this event, a contract should allow the processing of change order requests through an orderly change-control procedure. When unforeseen events lead to cost increases, a provider should have the right to come to an agreement with a customer on additional charges. In addition, attempts should be made to reach an agreement with a customer to shoulder some of the burden of unanticipated cost hikes caused by customers that are not following agreed-upon procedures. Appropriate cost-containment provisions should be put in the agreement to ensure that a delay by a customer does not require a firm to sideline valuable resources. For example, if a customer delay forces a provider’s personnel to work overtime, any increased wages should be paid for by the outsourcing organization. In addition, a contract can allow for cost-of-living increases if appropriate.

The fourth issue to consider is whether a service provider owns the work they develop during a customer engagement? An outsourcing contract should clarify which party owns work performed rather than leave this matter open to question or later negotiation. Vagueness could lead to conflict later on, therefore, a provider and client should clearly define ownership of the contracted work, whether it’s software, business processes or other intellectual property developed over the course of the contract. An additional issue is whether a service provider is protected from the customer hiring the former’s best employees away? Since good talent is always in demand, an outsourcing contract should reduce the likelihood that a customer will try to recruit the provider’s employees by having an appropriate non solicitation and non hire clause enshrined in the contract.

The last issue is whether a service provider’s outsourcing contract provided to the customer modular is enough? A master document that references concepts or attachments is appropriate to the ever-changing reality of any outsourcing. For

example, the term of a contract should state the number of years or months after any transition period is completed rather than specific begin and end dates. If your transition effort runs late, the length of time for service delivery is effectively pushed back so that a provider will not find that the delivery date is reduced. Contrast this with a more limited, specific date-driven contract that is not flexible enough to recognize the manner in which project plans may change. The flexibility to grow in an outsourcing business is worth considering in every step of the way to ensure maximum growth potential.

Service providers usually provide services on a small or large scale. Those providing limited services are referred to as small sized service providers while their bigger counterparts are referred to as large size providers.

#### 2.4.1 **Small Sized Providers**

The main object of outsourcing between service providers are performance improvement and cost reduction, whereby small service providers, offer regular services similar to those of big service providers, but on a smaller scale.

Good providers should carry out initial an assessment of an outsourcing organization's operations prior to embarking on the outsourcing process. This assessment typically involves an evaluation of electronic information capabilities and quality measurement program. Expectations are typically defined by a core programme, policies and procedures, and through the contract language. Policies and procedures should be established to reflect the outsourcing organization's interest based on provider standards. Organizations show that a limited number of a client's existing facilities were retained once a provider was fully transitioned in to the new service delivery process.

Manufacturing organizations' providers usually do not use outside experts in any decision to outsource but rather use in-house expertise which is based on experience (Eger *et al*, 2002). This demonstrates that historical knowledge plays a vital part for service providers in an outsourcing engagement. By targeting clients on the basis of

geography and commodity, service providers consider a client's core competence, size and location when deciding to participate in a Request for Proposal.

#### 2.4.2 Large Sized Providers

According to Howe (1998), most large service providers like Kellogg Brown and Root (KBR) and DynCorp, employ over 30,000 employees globally and provide full service logistics solutions featuring multimodal transportation services, facilities management, freight bill payment, warehousing, freight consolidation and security services. Larger service providers offer services and operations with competitive advantage based on situations, experience, and industry standards and provide common benchmarks for establishing goals. There is common agreement regarding cost reduction and performance improvement between small and large providers that cost reduction is considered the most typical goals for outsourcing.

Eger *et al* (2002) on a study of the US Department of Transportation Outsourcing indicated that for most of the large service providers, the primary barriers impeding the decision to outsource are technological limitations and a lack of a mature international network. Also organizations with the most influential factors of debt management, strength and physical equipment and capabilities indicated that they selected and reviewed providers by looking for the best in class and by considering those who are in the best position to deliver. Contrary to a manufacturing company, providers as outside experts are often involved in the client's decision to outsource. Providers' expectations are usually defined through a negotiated scope of work, within the contract language and with the use of key performance indicators, while their policies and procedures are established by integrating customer and provider minimum standards. It is important for providers to carry out an initial assessment of the outsourcing organizations' operations by two different SWOT (Strengths, Weaknesses, Opportunities and Threats) teams, who learn as much as possible about a client's company and notes should be compared. On the implementation of a new process, providers should attempt to maintain uninterrupted services and, therefore, a unified solution is achieved with respect to retaining a client's existing subcontractors and carriers.

Furthermore, according to Eger *et al* (2002), costs, timeliness of services, information accuracy and speed of feedback are key outsourcing performance measures that should be identified and should be measured through contract terms, gain and pain sharing, and specific key performance indicators. A provider's performance should be reviewed weekly and monthly depending on event basis and supply chain complexity. In addition, though unplanned, exceptions to normal organization's practices should be managed with realistic solutions. In selecting service providers, empowerment is not only vital at the shop floor but throughout an organization which is a major objective for outsourcing by the UN. Meanwhile, UN's operations in developing nations use empowerment to enrich local economies these nations (United Nations, 2005). The process enriches skills and improves performance. When eventually an operation of the UN winds down, empowered nations are in a better situation to run their new country. Therefore, the providers who are able to impart knowledge on a local population are those with the right credentials for selection.

Lastly, though many organizations consider outsourcing a function or services because of anticipated cost savings, there is a need for better skills and management as well as handling of overflow situations. However they will be more willing to outsource should there be multiple reasons for doing so, for example, the need for reducing cost as well as selling off assets to a provider. Furthermore, due to financial and human resources implications, top management involvement is essential when making a final decision to outsource because moving a function to a provider may impact negatively on an outsourcing organization if the contract is not properly implemented. Therefore, an outsourcing organization should have adequate knowledge of the *modus operandi* and objectives of the provider before entering into a contract. It should also be noted that providers have cost advantage in only a portion of a function, which usually does not include customized work which is difficult to standardize. Therefore, there are many activities within a functional area that the provider cannot provide at a lower cost and which would cost an outsourcing organization more should they decide to outsource it (Bragg, 2006).

Therefore, when making a provider selection decision, an outsourcing organization must know the providers' expectations for making money from an outsourcing contract, whether the provider would offer cost savings and how will savings be

generated. Another important issue is how a provider will behave when competing with other providers and how this would impact on the relationship with the outsourcing organization. Additionally, how to treat the selected provider is essential to ensure a good outsourcing engagement and the level of integration required to retain the selected provider. An outsourcing organization must realise that providers would require access to a lot of information that the outsourcing organization are willing to reveal. They should also envision further stages in the outsourcing relationship with the provider, which may include partnering. Therefore an organization should not enter into an outsourcing engagement where a relationship does not exist; otherwise an outsourcing relationship should be restricted to low-level functional areas. A good partnership would lead to strengthening of their relationship and financial support from each other. Another factor to consider is that there is an important caveat to think about when envisioning a close relationship with a provider. A provider may be more interested in earning a profit at the expense of forming a closer relationship. Therefore, an outsourcing organization must be able to differentiate between providers who want a long term relationship and those interested in short term profit only (Bragg, 2006)

## 2.5 THE TRANSITION TO OUTSOURCING

It is important to establish a post-outsourcing decision plan for moving forward on an outsourcing decision after agreement to outsource has been reached. This is because a number of issues arise regarding transition toward outsourcing. According to a study by Boyson *et al*, (1999), which was developed from a survey of managers in transportation and distribution across the United States many of the prevalent issues regarding the transition toward outsourcing were addressed. Based on the survey results, he suggested a strategic approach to outsourcing which involved identifying long-term goals and separating supply chain activities from core competencies, rather than focusing on outsourcing single functions to correct production deficiencies. According to the study, this approach to outsourcing should evaluate costs and potential process improvements that can be gained from obtaining a service provider. Eger *et al* (2002) added that these tasks are most effectively accomplished through the use of internal knowledge capabilities.

### 2.5.1 Planning and Managing Transitions with Third Party Service Providers

In outsourcing engagements, organizations turn over ownership of a non-core, important function or activity to a provider in order to get maximum benefit of a provider's expertise, economies of scale and access to resources. To ensure success there should be a carefully drawn out transition plan. Often overlooked, a transition plan and related costs are critical to a successful outsourcing engagement. Several types of transitions occur in any type of outsourcing contract, and all must be handled properly if the contract is to succeed.

(Bragg, 2006) described transition as the process of moving an organization's function to a provider that has many common elements regardless of the type of function being moved. The transition to a provider should follow a predetermined sequence of actions. The simpler the function or activity outsourced, the fewer the steps or actions to be taken or vice versa. Critical functions may fail during transition which may impact on the ability to operate. In addition, fast transitions do not give providers enough time to review an outsourcing organization and may result in an incorrect bid price that would require renegotiation to make it more equitable. To ensure success both parties would be required to formally sign-off on steps completed before moving onto the next step. However if a party is not willing to cooperate, then more time would be required until the particular step is accepted by both sides.

According to Goolsby (2001b), a transition plan should be from the outsourcing organization to the service provider management and should also detail costs involved in the transition process, and at the same time map the process by which the service provider becomes involved in the organization's activities and/or projects. Potential impacts on internal staff and end users should also be identified. An outsourcing organization could determine the result but would not be in a position to dictate how the process should be performed. Determining appropriate service level specification is a crucial foundation for successful outsourcing because it is the only way to ensure a comfort level for an outsourcing organization to set required service level specifications and then regularly measure a provider's performance to determine whether those levels are achieved.

Bragg (2006) further stressed that outsourcing organizations should create measurements that track a provider's day-to-day performance as well as measurements that can be used to pay a provider more or less money based on how the process improves an outsourcing organizations' revenues or reduces its costs. Therefore, a baseline set of measurements should be calculated prior to transition to a provider to enable the outsourcing organization to have a measurement to compare the provider's performance with its own. Once a function is outsourced, measurements should be stored in trend lines so that sudden changes in measurement can be investigated to see if problems are occurring. An outsourcing organization should use its own staff to collect measurements information and perform calculations in order to obtain measurements that are not skewed by providers who want to achieve the best possible results.

Goolsby (2001b) further emphasized that service level specifications play two vital roles in an outsourcing engagement, they ensure accountability on the part of a provider and they determine the price of a service. However, Hamer (1988) mentioned that a service level or performance specification should be developed outlining desired response times, personnel and equipment resources as well as training results. Furthermore, since specifications would impact the price a provider will charge for services provided, the cost of such services would rise because they are setting very service level specification. Accordingly, the outsourcing organization's desired results as specified in the service level specifications would determine the price

Therefore, outsourcing organizations must clearly determine the scope and boundaries of an outsourced process before results can objectively measured, by ensuring that service level specifications are not ambiguous and are tied to desired results. Service level specifications can actually drive down price (Goolsby, 2001b). However, the most important focus for outsourcing organizations when writing contractual agreements for outsourcing is to eliminate risks. This is best accomplished through a clear, effective description of the process to be outsourced together with clear, effective and objective service level specifications.

In addition, to achieve a win-win relationship, Goolsby (2001b) advised that both parties must rely on the service level specification to determine where a provider's

focus should be because such a specification identifies the outsourcing organization's goals and the provider's guarantees, together with continuous improvement in the outsourced process. However, defining vital components of a contractual relationship is tedious and time consuming, unavoidably it is the only way outsourcing organizations can achieve results.

There should also be a plan for changes in workflow that results from service changes in outsourcing contracts. End users must be kept informed of goals and progress of an engagement and their input must be included in outsourcing plans. End users will have expectations regarding how the change in services will affect them. These expectations must be managed to achieve user buy-in and sign-off on outsourced activities. Educating employees and customers about new work methods must be part of an outsourcing plan.

Although many potential friction points as possible may be identified in advance, however, these friction points will not resolve themselves when they do arise. To ensure effective management, Lynch (2000) recommended that outsourcing organizations must have in place an effective structure and process for an outsourcing relationship, not only to resolve conflicts but also to manage any ongoing activity. Ideally, a logistics manager of outsourced functions from an outsourcing organization who chaired a transition team during the implementation of an outsourcing engagement would be the ideal relationship manager. Yet this may not be the right choice. An outsourcing organization must be sensitive to the principle that managing relationships requires quite a different set of skills from those applied in managing logistics activities. Although managers may be good logistics problem solvers, they may lack necessary managerial and leadership capabilities. An ideal relationship manager should be a problem solver, innovator, facilitator, and negotiator who has exceptional people skills and ability to get things done. A relationship manager must then strike a fine balance between being a logistics problem solver, willing to listen, a good communicator, with a high sense of integrity and a leader who can motivate and facilitate superior performance by a provider. The manager must be available to the provider when assistance is needed. (Lynch, 2000).



Bragg (2006) referred to this ideal person as a coordinator. However, regardless of the name, this key experienced staff should ensure that the provider takes over and operates the function effectively, which calls for an active provider performance measurement system. The person should also have excellent social skills to handle people oriented tasks, including passing of complaints to provider(s), negotiating contract changes and leading periodic relationship and milestone management meetings. Since the job entails building trust with providers, he or she should have management skills in negotiation, oversight and teamwork and should be in a top management position to enable him/her operate effectively (Bragg, 2006).

Therefore, a relationship manager must be honest and forthright in dealing with issues and be able to assign responsibilities. Frequently, major relationship challenges will not be with a provider but with outsourcing organizations. A manager then must be able to negotiate and influence internally as well as externally. An outsourcing manager must have the position and standing within an organization to combat these negative forces.

In view of the fact that in a logistics relationship, a provider will be the last contact with a product before it is shipped to a customer and therefore, service providers should treat them as extensions of a business and as one of the most important representatives of the outsourcing organization. Relationship managers must ensure that process changes are reviewed by a provider prior to implementation and the impact of such changes must be understood and communicated. Outsourced operations should also be treated in precisely the same manner as in-house operations because they are an integral part of the company.

Furthermore, poor communication is second only to poor planning as a major cause of outsourcing relationship failure. Consequently, communication in all aspects of an outsourcing engagement must be frequent and two-way. If a provider is to be truly integrated into an outsourcing organization, they must be kept fully informed of every aspect of the business that will affect them or influence their operations. Therefore, providers should not be left to operate in an information vacuum as this could cause outsourcing engagements to fail. Similarly, a provider must be encouraged to keep outsourcing organizations fully informed about their operations and plans. Since

unanticipated scheduling problems, work and equipment shortages may jeopardise an outsourcing engagement. An outsourcing organization's relationship manager must be sure that a relationship is mutual, open and honest as well as ensuring that prompt communication is encouraged, expected, and accepted (Lynch, 2000).

In addition, certain basic rules should be followed in dealing with any issues, regardless of whether they are provoked by outsourcing organizations' or providers'. This action can make even unpleasant communications somewhat more tolerable. However, the most important of these rules is to maintain open communication at all levels at all times. Communicating should not be reserved for only when there is a problem and there is no one best schedule for the frequency communications between outsourcing organizations and providers. Hence the most appropriate methods of communication will depend on the nature of the specific relationship. Regardless of the means used, both parties should rather over-communicate than not communicate enough.

Since the usual reason for outsourcing in the private sector, are generally to reduce costs and increase revenues, therefore, customer service capabilities and the cost of services are primary factors in selecting service providers. The study by Boyson *et al* (1999), also addressed the issue of selecting an outside service provider for outsourcing. According to the survey results, gathering information on available providers has been most effectively accomplished through in-house research and professional networks. Furthermore, after a provider had been chosen and contracted, the relationship between the organization and the provider was most effectively managed through centralised systems that rely on office of internal oversight to audit and monitor the outsourcing agreement. Although public sector organizations do not necessarily have the goal of maximizing revenue, it is still essential to consider reducing costs and maintaining high quality customer service when choosing an outside service provider. This ensures a good outsourcing relationship with providers (Eger *et al*, 2002).

A contractual agreement is central to a provider relationship. In general, organizations are risk-averse toward outsourcing relationships. Boyson *et al* (1999), found that most contractual agreements include preventative measures, which are often reflected

through contractual clauses that unambiguously outline the relationship with a service provider including costs for services, provider responsibilities and provider performance monitoring (Boyson *et al.*, 1999)

A plan for transition from one service provider to another or from a service provider back to an outsourcing organization at the end of a contract should be in place. Transition periods can be painful for internal staff, service provider staff, and end users, and expensive for an organization, if a transition plan is not available to guide these efforts. Once a planning phase is completed, the next phase deals with the process of selecting a service provider. This process is covered in the next section.

### 2.5.2 **Selecting the Third Party Service Provider**

In the last 5 years, the business environment has developed at a rapid pace, such that senior executives that seek to keep their business competitive and fully optimised relative to the people-process-tools balance can no longer afford to ignore globalisation, offshore sourcing or full scope outsourcing (Fersht, 2006).

With more service providers in every outsourcing category, coupled with the rapid pace of change in technology, selecting service providers seems more complex than ever. Effective solutions should go beyond addressing current business function, but must be constructed to evolve as new IT and business objectives develop over time. Therefore, outsourcing organizations should not select a service provider based on only sales presentations but on substance (Goolsby, 2001a). However, effective solutions to complex business problem always involve more than tools. They include people and processes. Since work performed by a provider would have enterprise-wide business impact, providers must be able to ensure business continuity. It is also imperative to choose a provider that can put all pieces together, no matter how complicated tools and processes become. Nevertheless it is rare to find a single provider that can effectively deliver a comprehensive, fully integrated solution (Goolsby, 2001a).

According to Lynch (2000), the basic premise of outsourcing is that a company is selecting a logistics provider that is well qualified to perform logistics functions and

who will do so in a satisfactory manner acting on their own initiative. Therefore an outsourcing organization's selection of a most appropriate service provider is critical to the outsourcing return on an investment because in outsourcing, a provider delivers services to an outsourcing organization using resources owned and managed by the provider. Additionally, the provider's capabilities and partnering approach provide a key component to delivering value (Fersht, 2006). Furthermore, the selection of service providers is a task which demands close and careful attention particularly if a contract is to be offered as a partnership agreement for a broad range of services over a long term by a single provider. Therefore, to ensure that the most appropriate provider is selected, certain principles must be observed if the selection process is to be conducted efficiently and a long term relationship be formed. Thus, a selection process should start with a bidding process and a specification of service levels as well as the commercial terms (Barrett and Baldry, 2003).

Cloete (2002) provided these additional selection criteria:

- Assess the suitability of the provider;
- Investigate the provider's financial stability and track record;
- Evaluate the relevant industry sector and international experience;
- Assess the provider's capability;
- Follow up on references;
- Determine the cultural 'fit';
- Decide if you can work with the provider; and
- Assess the provider's commitment to the outsourcing organization's approach.

Menon *et al* (1998) described several other criteria that have been developed for choosing service providers in the United States. This includes three major selection criteria identified for choosing providers from a survey of Third Party Service users in the United States. The perceived performance of suppliers was identified as the first selection criterion. Perceived performance includes the perception of on-time performance, ability to meet promises, availability of top management, and excellent error rates. Perceived capability was considered as the second criterion and it comprises of the perception of creative management and financial stability of the

provider. The last criterion identified was the role of prices; though, the study suggested that performance and quality requirements outweigh price considerations. Based on survey results in a third study, Lieb (1992) identified an almost even division between cost and service considerations as most important for selecting a service provider. Prior experience with a provider, management capability, company reputation, and financial stability were other considerations identified for selecting a provider in the study.

Tracey *et al* (1998) indicated that though price is an important factor it is not completely relevant since selecting a provider with the lowest bid often created more problems because key elements that support a business may not be included. It is also important to weigh all risks and to recognise that any damage resulting from a poor selection of a low-cost bidder is likely to totally outweigh the difference in cost to the next lowest bidder or the alternative of in-house provision. It follows that total expenditure must be a principal feature in any selection process (Alexander, 1996).

Bragg (2006) advised that a provider may make a bid too low in order to win a contract, which he attributed to incorrect evaluation of specifications for the outsourcing contract. However, providers should not be held to the quoted price since an outsourcing organization's main objective for outsourcing is to select a provider that can provide quality services and also reduce amount of management time needed to run a function. Therefore, providers should not be made to lose money because it would inevitably lead to cost cutting and consequently a reduction in service level. Accordingly, it is better to notify a provider about a pricing problem with the bid and request for a revised bid that would reflect actual costs and profit margin (Bragg, 2006). The reason is that pricing issues are usually identified as the most common point of contention in an outsourcing engagement and should be avoided at all costs using appropriate mechanism to ensure a successful outsourcing relationship (Eger *et al*, 2002).

In my opinion, understanding the emphasis of a service provider's business, or what drives a service provider, is essential in choosing an appropriate service provider to meet specific needs. For example, large organizations are usually looking for extremely large contracts. Smaller contracts negotiated with large organizations might

not have as much impact on a company's profit and are not likely to receive the same quality of treatment as larger contracts. Often, if large organizations accept smaller contracts, they use the experience, contacts and revenues from several of these smaller contracts to better prepare them for the bigger contracts.

Several other factors influence the choice of a provider. However, the most important influences are quality, financial stability, physical equipment and capabilities, operational excellence. Quality program factors are also used to select and review subcontractors Eger *et al* (2002).

In selecting a provider, Rondeau *et al* (2006) advised that a provider's past experience and depth of experience are important considerations. Interviewing a provider's past and present clients, and inspecting facilities or services being managed by them can give a good indication of a provider's management experience, level of service, effectiveness, method and style, after a review of a provider's management style and experience. They further suggested that an additional visit to each provider under consideration should be scheduled to compare services, costs, firm size, structure and operations to ensure that the selected provider is capable of performing services using an appropriate level of resources for successful management of the activities

A more proactive strategy for service delivery is required in order to ensure that providers meet the challenge of delivering time and consistent high quality support. Therefore a provider with a proactive integrated management approach that can dramatically reduce operating costs and downtime, enhance performance and create opportunity for increased revenue would be the appropriate choice (Goolsby, 2001a).

Fersht (2006) added that effectively changing an outsourcing engagement to an outsourcing model requires applying best practices throughout all phases of provider selection process and further provided a comprehensive account of the phases of building an outsourcing relationship. He started by explaining that decisions relating to activities and functions that will be outsourced and the development of the outsourcing strategy usually takes place before a provider is selected. The best practices at this phase can be segmented into four primary steps:

- Designation of a team of key individual to weigh all aspects of an outsourcing decision;
- The use of external experts to make unbiased, educated and objective decisions for an outsourcing engagement. This ensures that any unproductive analysis and internal disputes are avoided;
- Approaching the selection of service providers in a fact based and knowledgeable manner ensure that filters are applied against a multitude of outsourcing offerings in the market such as the alignment of provider's strategies and cultures; and
- Entering into a multi-tiered contract of integrated human resources, finance and accounting and procurement from a single provider.

Furthermore, Manring (2001) added that in the provider selection decision-making, the following ten critical questions should be put to potential service providers:

- Does the provider have a track record of service commitment?
- Does the provider have a clearly defined account management plan where, at least, an individual maybe designated to handle the account on a daily basis;
- Are the provider's current and past customers satisfied with the level of service?
- What is the quality of the provider's infrastructure and the personnel charged with managing it?
- What security measures are provided by the provider to guide sensitive information and protect outside intrusion?
- Has an adaptable and proven methodology that would ensure smooth transition been developed to govern the migration of operational responsibility?
- Are pricing of services flexible with price breaks and without hidden costs?
- Does the provider offer competitive advantage in the provision of services?
- How much flexibility does the provider offer in accommodating specific requirements? and
- How financially stable is the provider?

Fersht (2006) continued by explaining that outsourcing engagements are long term relationships that come with binding agreements, hence, organizations must ensure that the best available outsourcing partners are selected. For that reason, a RFP should be sent to each provider after a selection process. However it is usually better to meet personally with respective providers and develop a relationship early rather than relying on impersonal RFP.

In explaining the importance of price negotiation, terms and conditions, Fersht (2006) outlined the best practices approach as:

- Desiring a long-term, mutually beneficial relationship rather than trying to obtain the lowest price;
- Creating option-value for the outsourcing organization such as changing outsourcing direction, should business outcome change; and
- Ensuring that organizations understand that in most outsourcing engagements, outsourced services may be carried out differently as before the outsourcing engagement.

In the last phase, Fersht (2006) elaborated that outsourcing organizations must ensure that outsourcing relationships are two way and should one party fail, both may fail. Furthermore, parties involved must ensure that the relationship is adaptable to change and outsourcing organizations must continually analyse the relationship to ensure it is healthy. Furthermore, Goolsby (2001a) was of the opinion that organizations spend a considerable amount of time researching tools and service providers. Therefore, when these tools are purchased, they should be integrated into the enterprise environment. Furthermore, many interfaces and touch points must be addressed in order to make it as seamless as possible, unfortunately, implementing a tool is not enough to enable a tool to satisfy a requirement. To achieve desired results, people and processes associated with these tools should be linked to the rest of the organization's business process and service delivery. Unfortunately this is not usually the case as lack of integration is the primary weakness of service providers. Therefore a best-of-breed service provider would ensure that all the provider's tools are truly



integrated and that an outsourcing organization has a single point of contact. As a result, an end-user does not have to go from one system to another and/or one provider to another to find a solution to a problem. To accomplish this in a cost-effective and timely manner requires that all systems are fully accessible and updated seamlessly. Therefore, it is better to select a best-of-breed service provider.

Costs of support services are also greatly reduced when providers that use a fully integrated set of tools, people and functions are selected. Furthermore, unless providers have functions and activities integrated into the system, a customer will not get value. Moreover, providers with an integrated delivery system can anticipate problems and head them off, rather than waiting for problems to occur. There were also further indications that the number of applications and systems a person has to touch in order to accomplish a task is a cost factor that is usually overlooked by most outsourcing organizations. Accordingly a best approach to maximise use, benefits and productivity is to minimise the human-to-computer interfaces by ensuring that an end user does not have to touch more than three different tools in a typical call, thus maximising effectiveness and timeliness of services. Accordingly an outsourcing organization would have to rely on provider's experience and tools to achieve faster, more efficient services at predictable cost. Therefore, to achieve world-class delivery model, outsourcing organizations should select service providers that incorporate tools, processes and people (Goolsby, 2001a).

Additionally, before selecting a service provider or negotiating a contract, an organization should inform its personnel on the scope of an outsourcing agreement, what should result from it, how it will be measured, and what the reporting requirements are? Much of the preliminary work done in a cost-benefit analysis will pay off in the contract negotiation and management stages. Also once it has been decided that outsourcing is the answer and a provider should be selected, then performance specifications can be defined, and a RFP developed and forwarded to qualified service providers. A RFP may be as simple as asking providers to submit their standard proposal of product, function, terms and conditions as well as warranties or it may be complex (Hamer, 1988).

However, Morse (2001) indicated that requirements can be clearly communicated to the service providers in a RFP, so the initial responses will provide a full and clear picture of a service provider's ability to meet the needs of an organization. A RFP must reflect the type of service provider necessary to complete the outsourcing proposal successfully. Furthermore, one of the challenges in a RFP is to ensure that bidders responding to a RFP are actually capable of providing the service requested by an outsourcing organization. To ensure that a provider are fully capable of providing the services, outsourcing organizations should include reference checking as an integral part of a RFP process because there is not a more powerful or effective way to measure a provider's ability to provide services than to ask the provider's customers. Providers would be required to provide names and contact information of other firms or organizations where similar or related services have been executed. This would be followed by an interview to determine the level of customer satisfaction with the provider's services. The result of the interview would be used as one of the major evaluation factors in choosing a provider.

According to Morse (2001), a reference interview should be conducted within a reasonable time not exceeding one hour and should be carried out by an outsourcing organization using outsourcing experts (in-house or outside consultants using the following steps:

- Determining what makes a good candidate;
- Starting early, which involves initiating a methodology that allows for the performance of a reference check interview as early as in the RFP process as possible without having to wait until the bids are received;
- Using customer reference information. This involves using a specialised form for collecting reference information from the provider(s) ;
- Rejecting all incomplete forms. This is important since the questions are required to design interview questions in order to ask the right questions; contacting the reference by telephone. This is required to gain the cooperation of the provider and to build rapport as well as verifying the name, position and relationship between the reference and the service provider;

- Asking the right questions. This is one of the most important parts of the process because asking the wrong questions would get the wrong answers; and
- Summarising and scoring. Once the interview is complete, the interview team should score the categories based on their mutual impressions of the interview. The results can then be transferred to an overall scoring spreadsheet so the results of the reference interviews become part of the overall evaluation.

According to Jones (2001) reference checks should be carried out early in the RFP process to ensure that the right provider is identified recording all impressions as well as facts. He also warned that in selecting providers, it is necessary to develop a detailed analysis to assist in determining the current costs for the planned outsourcing function, which should be followed by an analysis of involved risks, and consequently a RFP can be prepared.

Inadequate time is another factor that may lead to the selection of an inappropriate group of initial providers which may in-turn lead to the creation of an insufficiently detailed RFP and prevent proper reference checks. Other factors include a wrong SOW that is too vague which may lead to incorrect bids being made on services that are not required. Bidding on services that are not required would lead to a renegotiation of a contract even when a selected provider has started work. There may also be insufficient definition of costs of services in a provider's bid such that bid prices become too vague (Bragg, 2006).

Jones (2001) further advised that clear outsourcing objectives are necessary for setting parameters, collecting appropriate information for analysis, formulating a RFP, evaluating proposal responses, analyzing and resolving trade-off issues, and negotiating a sound contract. This usually involves estimating benefits by performing a risk analysis, which identifies, analyzes, and prioritizes risks. After a risks analysis has been performed, a RFP can be developed by gathering provider information. This should be followed by an evaluation of provider responses and trade-off in deciding whether outsourcing is a viable option. Provider competition should be encouraged throughout the process through negotiations to ensure that regular

communication channels are strictly adhered to by the providers and that none of the providers goes directly to top management. Jones (2001) agrees with Morse (2001) on the importance of reference checking the provider. In addition, Jones (2001) highlighted the importance of relationship building by defining the relationship management process because it is a determinant of the success of an outsourcing engagement.

Also a service provider selection team should be developed that recognizes all business areas impacted by the project. Key staff to include on the team should comprise of the following categories:

- Senior management;
- Legal staff with contract expertise;
- Technical staff and information systems analysts;
- End users; and
- Financial staff.

In selecting a service provider the organization personnel should be sure that any agreement is entered into in accordance with applicable procurement laws. Another scenario exists where an organization is convinced that outsourcing a non-core activity, function or business process will enable the organization to compete favourably in the market. For example, an organization may have specific requirements for a provider but cannot find a suitable provider. According to Bendor-Samuel (2001e), an outsourcing organization that cannot find the right provider, has a lot of choices besides abandoning the outsourcing efforts. The four choices available are:

- Creating a privately owned service provider firm and have the advantage of being the first to market with a new process. Providers who believe they have an advantage can capitalize on this opportunity especially where they believe a larger market will develop in future by creating an outsourcing company with 100% ownership;

- Going into partnership with a firm that will provide the required capital needed to create the leverage necessary for outsourcing. The partner should have the equity necessary to ensure that outside capital flows into the outsourcing arrangement;
- Forming a joint venture with existing provider(s). However, joint ventures may have a problem sustaining capital formation unless the partners have agreed in advance to continuing expenditure for process improvement. It should be noted that joint ventures only work when a strong governance programme exists in the outsourcing contract; and
- Gain-sharing with a provider that will bear the risk and share the rewards. In this situation a provider is not interested in owning a firm but only wants to own a portion of the success the outsourcing provider earns by bringing in something new to the market. Outsourcing organizations simply want to be compensated for risks they bear in going into a new venture.

A chain of wrong decisions may lead to the wrong provider being selected. Bragg (2006) indicated that inadequate time may also lead to the selection of the inappropriate group of initial providers, which turning-turn would lead to the creation of insufficiently detailed RFP and prevent proper reference checks. He outlined that an organization considering outsource should find an appropriate provider through an outsourcing clearing house, that is organizations with the sole task of providing information on outsourcing services who also conduct seminar on the subject. It usually offers a directory of providers. An industry trade journal is also another source, including internet search engines such as Google and Yahoo. Consultants such as Deloitte, Everest Group may also be used. It is also important to know how providers compete against each other in order to differentiate between the bids received as this assists in the selection process. This they do by:

- Keeping their initial contract price as low as possible to win the contract and later build various clauses into the contract which permit price increases. They provide the lowest initial bid to obtain the business but allow it to earn profit on a deferred basis. According to Cloete (2002) it is important to select a provider that knows how to cost services and who are less likely to ramp up

the service charges as soon as an outsourcing agreement is signed. Therefore the outsourcing organization knows what to expect and the provider knows what to provide during pricing;

- Holding-on onto an outsourcing organizations for as long as a contract is possible, while at the same time locking out competitors;
- By offering free consulting services not only in advance but during the period of the outsourcing engagement. The services are targeted at recommending the services of the provider on a continual basis to the outsourcing organization

In conclusion Lynch (2000) pointed out that although successful outsourcing begins with selecting the right provider, it should not end there. The long-term success of outsourcing efforts depends squarely on how well relationships with providers are managed. However, Bendor-Samuel (2001e) added that if a suitable provider cannot be found, firms may create a service provider firm or go into a partnership when they believe that the gains from outsourcing far outweighs not outsourcing. Lastly, Bragg (2006) was of the view that providers can be found easily for all services unless the outsourcing organization is located in an isolated area like most UN peacekeeping operations or if the service is so difficult to find.

### 2.5.3 Negotiating Outsourcing Contracts

The organization's selection team should work through the evaluation of RFP's to select the most qualified service providers for a planned outsourcing activity. To conduct negotiations with service providers, a smaller negotiating team comprising of:

- Procurement staff expert in dealing with service providers;
- Legal staff with contract expertise;
- Outsourcing project manager; and
- Senior management.

According to Tracey *et al* (1998), once a reliable outsourcing partner or provider has been selected, negotiations and strategic works should begin towards reaching an

agreement on a clear definition of the services to be performed. Agreements on time, costs and resources should be reached so that an outsourcing engagement would proceed. Audit and progress reviews should be carried out at regular intervals and leading to a formalisation of the outsourcing engagement.

Subject area experts should be brought in to advise a core team as needed (budget staff, technical staff, and end users). Although the actual contract negotiation with potential service providers should begin after transition plans are made and the negotiation team has concurred on negotiation strategies, contract negotiation occurs whenever anyone in an organization is in contact with a potential service provider. Service providers obtain a great deal of access to organizational information during the negotiation of outsourcing contracts. This access must be recognized in order for an organization to conduct other business agreements, do strategic planning, and work with other service providers. A service provider who is awarded an outsourcing contract is in a unique position to identify organization strengths/weaknesses and use these observations to benefit an organization in future negotiations. Service providers will also have many contacts with organization staff. For negotiations to be as successful as possible, all organization staff should be aware of the service provider selection process, and be diligent in directing all questions and inquiries from potential service providers to the negotiation team. These precautions discourage covert information gathering by service providers. Some questions posed by service providers may appear unrelated to current negotiations but are, in fact, attempts to gather valuable information about a pending contract. Some examples of these questions are:

*How many new or ongoing large projects are occurring within the organization?*

An answer to this question could give the service provider insight into organization staffing loads and anxiety toward meeting deadlines.

*Has the organization outsourced any other functions?*

Furthermore, an answer to this question may also give service providers information about organization's negotiation skills and assessment techniques.

Groundwork done on internal services evaluation and measurements, positions an organization to successfully negotiate and establish an outsourcing agreement. The negotiation team can now focus on detailing the scope of the contract, identifying each party's roles and responsibilities, and ensuring accurate and appropriate measures for tracking adherence to responsibilities.

In negotiating outsourcing contracts, it is important to know that service provider business goals are and always will be different from those of an organization. While service providers can be valued partners with organizations, it has to be recognised that an organization's priorities and needs will differ. Preparation should be made to identify and resolve the differences that will arise. It is vital that management and responsibility always remain with an organization doing the outsourcing. Additionally, it should be accepted and recognised that external service providers will make money on an outsourcing agreement somewhere; otherwise they would not be willing to sign any contract. As outlined earlier, signing an extremely reduced-price contract in haste may lead to having to work with a service provider who is not responsive to organization needs and who sticks precisely to the letter of the contract, charging an organization for any additional services needed. In situations like this, the better the service requirements, specifications and the statement of work are, the better the relationship between organization and service provider.

Lastly Tracey *et al* (1998) established that there are huge benefits and business advantages to be gained by partnering with a provider. However, it requires a lot of effort and understanding and if an outsourcing partnership cannot be developed, a binding contract should not be reached.

#### 2.5.4 **Managing and Evaluating the Outsourced Contract with Service Providers**

Outsourcing requires giving up control of a business function and trusting others to handle that function for you. Outsourced functions should be managed in the most effective manner possible and may require changing of a firm's organizational structure so that outsourced functions can be well managed (Bragg, 2006).



Rather than just a business tool, outsourcing is a new way to think about business. Therefore, a relationship between a company and a provider of outsourcing services is not the same as a relationship between a supplier and a customer (Tompkins *et al*, 2006). Furthermore, in any outsourcing relationship, it is important to start well with mutual understanding and agreement as to objectives, service level specifications as well as responsibilities and fair pricing. However, long term relationships inevitably will be affected by external situations that may cause an outsourcing party's interest in an outsourcing contract to differ thereby placing pressure on their attitudes towards each other (Goolsby, 2002b).

Jones (2001) also highlighted the importance of carefully defined service level requirements with sufficient depth to ensure that they are measurable. These requirements should be as detailed and measurable as possible. A provider's objective can be aligned with that of an outsourcing organization by stating the organization's requirements in terms of the performance of the organization and tying provider compensation to the business performance (Jones, 2001).

Thereafter, Tracey *et al* (1998) identified partnership with service providers as a natural, long term way of managing outsourcing relationships to the advantage of both outsourcing parties and described the process to follow. This includes an identification of services that have a potential for successful outsourcing through a review of the current support services. Explaining and selling the idea to top management and departments, followed by convincing the rest of the organization to participate willingly. The next step would be to choose a service provider, which can be done through market research, a review of the provider's performance as well as the quality and financial status checks. Furthermore, Rondeau *et al* (2006) describes partnering as the recognition that every contract includes as an implied covenant of good faith and not purely as a contract. Accordingly, partnering is the way people use to do business when a person's word was his or her bond and everyone accepted responsibility. A partnering process attempts to establish working relationships among the parties to an outsourcing contract through a mutual commitment for communication with trust and teamwork as the primary elements, while disputes are resolved through a recognised and agreed upon process.

Barrett and Baldry (2003) added that incentives for developing outsourcing relationships such as partnerships are based on dimensions of quality service. However they differentiated regular outsourcing contracts from partnering, where a strategic alliance is formed between outsourcing organizations and service providers based on sharing of responsibilities for the delivery and performance of services, including sharing of benefits arising from any efficient gains and cost saving.

According to Lynch (2000), Bendor-Samuel of Everest Group drew an interesting distinction between partnerships and alliances by suggesting that most contemporary outsourcing engagements are alliances rather than partnerships. Such an arrangement by its very nature will produce cultural differences, and this is particularly true with logistics outsourcing. While the objective of the two parties may be the same, their methods of achieving those goals may be quite different. Rondeau *et al* (2006) also advised that partnering can save time and money and has tremendous benefits when efficiently applied, while Tracey *et al* (1998) indicated that the full benefits of partnering results only when outsourcing organizations, consultants and service providers agree about their mutual objectives. He then went further to recommend that a partnering arrangement should be based on equality rather than being a one-sided paternalistic relationship. This requirement, argued Tracey *et al* (1998), is an agreement of mutual objectives which ensures that parties have a real chance of achieving greater individual success by working for a project's overall success than concentrating on their own narrow advantages.

Consequently, once the best service provider has been selected for an outsourcing engagement, plans including deadlines and final products should also be in place with the outsourcing organization focusing mainly on the core functions would then have to move forward in the outsourcing engagement. Care should be taken at this stage because successes and failures in outsourcing engagements are often attributable to the relationships developed between a client and an outsourcing provider rather than business issues. The reason is that after selecting a provider, there is a tendency to devote a lot of time to defining the outsourcing process and thereby spending less time communicating and understanding their partnership relationship. This should not be the case because the relationship between them is critical to the success of the outsourcing engagement and should not be taken lightly (Tompkins *et al*, 2006).

Accordingly, the main goal should be to effectively develop on what was understood in the selection process into a working relationship that would take the parties involved in an outsourcing engagement through a contracting process to implementation. Good, open, honest and unbiased communication is essential throughout this process. This would prevent the outsourcing parties from being left with false perceptions, unrealistic goals, lowered expectations, and a weak relationship that may jeopardize the entire outsourcing engagement. Goolsby (2002a) agreed that once a service or process has been outsourced, an organization is not absolved of responsibility for the service/process and its success. Therefore where there are third-party contracts involved in an outsourcing engagement, cost savings can be achieved by giving an outsourcing organization the responsibility for managing the contract. In some outsourcing organizations, an outsourcing department or unit (contract management) within the organization or an expert firm(s) is hired for the outsourcing engagement. An outsourcing organization should also take precautions to ensure that processes, including knowledge and database are accurate as possible before turning over of responsibility to the outsourcer. Outsourcing that occurs because a process is not understood or in order to focus all resources on other processes will fail. Many organizations experiencing outsourcing complications have not paid enough attention to managing the contract.

Contract management requires the ongoing participation of internal staff in the outsourced activity. Bragg (2006) also acknowledged that only knowledgeable internal staff should be retained to exercise proper control over outsourced functions. Areas of involvement include strategic planning, quality assurance, phase containment, change management, and defining and monitoring the measurements. Contract evaluation activities are ongoing from the start, as internal staff work next to service provider staff and gauge service provider effectiveness in meeting established measures and/or deliverables. Tompkins *et al* (2006) recommended that steps should be taken to ensure that an ideal working relationship exists during the creation of an outsourcing relationship. In getting a relationship started, it should be remembered that many outsourcing relationships start poorly, because outsourcing brings together at least two organizations with different points of view, internal structures, information capabilities, and operating methods. Therefore, a poor start leads to an

ineffective relationship, which in-turn leads to a failed relationship as well as complicated and costly legal battles.

Therefore, as soon as practical, an implementation team comprising of members from the outsourcing organization and the provider should be formed to begin the process of creating the new relationship. The implementation team should be tasked with establishing multiple touch points between all parties which must go beyond a provider's sales department and the outsourcing team, and should involve staff with project management and implementation experience who will execute the work. This team should also have broad knowledge of the RFP, the solution, and the negotiation terms and contract. Additionally, it is recommended that industry standard contracts be used to formalise legal relationships between the client organization and service providers (Atkin and Brooks, 2005). Accordingly, the implementation team would then be tasked with getting the relationship started through:

- Setting initial expectations;
- Identifying resources upfront;
- Setting out goals and how to reach them; and
- Planning for resistance.

Lynch (2000) added that managing an outsourced relationship is not a straightforward task. Therefore, prior to implementation, contracts, procedures, and personnel should all be in place. Also the parties' expectations and possible friction points should be identified earlier, however over time, interests and goals may begin to differ and inevitably lead to a dysfunctional relationship.

Lynch (2000) attributed the causes of dysfunctional outsourcing relationships to these factors:

- Pricing and service levels agreements established at the start of the contract usually contain no meaningful mechanism for continuous improvement;
- Even if the cultures are compatible, there are still some fundamental differences in the goals and objectives of the parties to the outsourcing engagement that are frequently difficult to harmonize;

- All outsourcing contracts are based on key assumptions regarding technologies, business conditions, personnel, and other relevant issues. As soon as the contract is signed, these assumptions begin to change. However detailed a contract is or how favourable the terms are, most contracts cannot anticipate changes in an evolving environment. This phenomenon tends to ensure that one, if not both, of parties will become disenchanted with the relationship. Longer-term contracts that lack flexibility tend to increase the likelihood of dissatisfaction;
- Once a contract is in progress, there could be a tendency for both parties to try to maximise their gains at the expense of their relationship;
- Outsourcing organizations frequently underestimate the time and attention required to manage an outsourcing relationship. On occasions outsourcing organizations are known to have handed over management responsibilities to service providers leading to lowered quality because a provider's agenda is not in accordance with the outsourcing organization's business objectives. A probable reason is that the team that negotiated the contract often does not stay engaged in contract management and or a new team that may or may not understand the contract's intentions is given responsibility for managing the relationship. Also staff members who understood the pre-outsourced environment may have been transferred to the service provider's team. This disruption in continuity can have significant adverse effects on the outsourcing relationship.

Furthermore, in-house logistics managers may see a provider as a threat to their control or job security and may not totally embrace the relationship and therefore would not be completely committed to the success of the operation. Additionally a common source of difficulty is leaving providers to operate on their own, with little or no direction from the outsourcing organization. Though desirable, advice and counsel must be made readily available to providers. Tompkins *et al* (2006) describes relationships between outsourcing organizations and providers as failures when one party does not do what the other party expects. Most often, this is a result of mistakes providers and outsourcing organizations make early in an outsourcing process. Setting initial expectations early is the best measure for avoiding these mistakes.

In many instances, service providers may not know the real cost of providing their services until well into the implementation process. This is compounded when the costs of providing the service is not known. Therefore, as part of getting an outsourcing relationship started, both parties to an outsourcing engagement should work together identifying resources needed to perform the outsourcing functions. Once resources have been jointly identified and roles and responsibilities assigned, the outsourcing organization and the selected providers would need to determine how to achieve and measure success. According to Tompkins *et al* (2006), the key questions to guide this process are:

- What is the essence of the outsourcing engagement to the parties?
- How will outsourcing success be achieved?
- What skills are required for the outsourcing engagement?
- What values will the parties practice? and
- How will outsourcing success be measured?

Moreover, when an organization announces its outsourcing plans, the usual internal reaction is an opposition to the project. This reaction is unfortunately inevitable, and therefore, plans must be put in place toward easing staff members concerns which are typically centred on such issues as fear of the unknown, job security and job loss. The use of open, honest, and frequent communication helps to ease these concerns. It is also vital to explain the outsourcing time table and what the outsourcing engagement would entail. Alternative job arrangements should be made for staff members who will not be part of the future or do not wish to be. The importance of a close relationship and partnering aspect of outsourcing should not be forgotten. Additionally, there are essential issues that should be considered in the course of managing and evaluating an outsourcing contract.

- *In-house Resources to Manage the Contract*

Regardless of how large or small the outsourcing effort is, internal resources must always be assigned to manage a contract. Outsourcing a particular task requires fewer in-house resources to manage the contract. For example, help desk services have model standards and are usually well understood by current

IT service providers, so fewer staff are required to oversee a contractor's performance.

A larger, more inclusive contract, such as one for outsourcing development projects or overall IT management, requires more in-house oversight because of specialized measures involved and the importance of strategic planning to the success of these efforts. Management of an outsourcing contract requires a combination of in-house expertise. An outsourcing project team should be experienced in finance, organization processes, and IT activities. Specific technical knowledge may be required to oversee a project implementing new technologies or business processes, while legal counsel should always be an available resource. Oversight staff lacking these diverse strengths will not always be able to identify emerging problems and ensure a successful outcome.

Oversight of an outsourcing contract requires that adequate controls and consistent lines of communication be established to check and resolve problem performance issues. An outsourcing project team must have the resources and flexibility to deal with unforeseen issues that come up during the course of a contract. The outsourcing project team is responsible for evaluating the success and performance of the outsourcing contract.

- *Communication*

In managing outsourcing relationships, communication with the service provider is of utmost importance during the life of a contract. Knowledgeable internal staff must be available to identify problems and work with the service provider to resolve them. Service provider selection should have provided a service provider whose business/functional culture aligns with that of the organization, so that communication is fostered and developed to support the effort. Outsourcing parties would be required to collaborate and communicate so that the outsourcing organization fully understands the value that outsourcing can bring to their business, how the provider proposes to

deliver that value and how the relationship can be managed to benefit the outsourcing engagement (Goolsby, 2007)

Although benefits in overseeing staffing and utilising resources can be achieved from outsourcing, a service provider relationship will be one of give and take. An organization may not have to worry about staffing issues, but a service provider could experience turnover and other problems. Selecting and working with service providers that are flexible and are committed to organization improvement will create a beneficial atmosphere rather than one that degenerates into mistrust, rigidity, and strict adherence to the letter of the contract.

An outsourcing organization should remain aware of service provider communication with other organization employees in order to identify requests for additional work from the service provider that may be outside of the scope of the contract. Serious efforts have to be made to ensure opening communication lines between an organization's staff and customers throughout the project. Ongoing service provider/ staff communication facilitates outsourced work activities. However, if the work is done without the organization's input, the end results will not enhance the ability of the organization to accomplish its goals.

Usually since most failed relationships are usually due to missed expectations than service failure, proper communication ensures that expectations are properly set for the new relationship. This communication structure should be open and non- judgemental because it would ensure that protocols are created for regular discussions about the outsourcing engagement, staffing, progress and other issues (Goolsby, 2007).

- *Control and Accountability*

Parties to an outsourcing engagement should build multiple levels of accountability and feedback into the relationship using not only performance



measures but executive and operational checkpoints on the health of the relationship.

In peacekeeping operations, funds from the GA used for outsourcing engagements are subject to audit by internal and external auditors. The head of the peacekeeping operations would have to defend the budget before the GA Advisory Committee on Administration and Budgetary Questions (ACABQ). ACABQ is a subsidiary organ of the GA that consists of 16 members that are appointed by the Assembly in their individual capacity. The major functions of the Advisory Committee include examining and reporting on budgets submitted by the Secretary-General to the GA, advice the GA on administrative and budgetary matters referred to it, and consider and report to the GA on auditor's reports on the accounts of the UN and specialised agencies. However, in the private sector, private organizations seek to keep much more information about their business processes and solutions confidential, so the balance between the two must be maintained.

- *Documentation*

All correspondence and communications with a service provider regarding problems, change orders and all proposed changes, or the implementation of the outsourcing efforts should be kept in order, to resolve disputes or identify areas of strengths and weaknesses.

- *An Ongoing Review Process*

According to Bragg (2006), outsourcing parties should create a formal review process to ensure that probable areas of conflicts are quickly identified and resolved before they become severe. This ensures that the outsourcing relationship has a good chance of succeeding. Reviews of an outsourcing engagement should take place on a regularly scheduled basis to ensure that monitoring is taking place, and to identify potential problems or issues early. A schedule may be driven by event, date, product, or issue, depending on the

needs of the engagement. It is essential to incorporate input from end users or staff into the reviews. Attention should not be focused on service provider, IT, or financial problems to the exclusion of the needs of end users.

The performance review process should be kept separate from operational meetings. Performance reviews must focus specifically on success and performance issues, rather than on ongoing operational considerations that will otherwise tend to become the main topic of conversation.

- *Manage Project Requirements*

Scope creep can occur during a project if a service provider, while using outsourcing organizations resources, identifies additional requirements not included in the original scope of works to build a case for increasing project scope. In the same way, internal resources can add requirements not identified in the contract and cause price increases.

- *Plan for an Exit Strategy*

To reduce loss of negotiation power, since most outsourcing contracts will come to an end at some point, and the better prepared an organization is to talk to other service providers or to take the project back in-house, the better off the organization will be. The outsourcing service provider will also be involved in the organization's operations at the end of a contract. Recognition of where the service provider's involvement lies and a plan prepared on how to separate the organization's operations from the service provider as quickly and easily as possible is vital. A plan should also be drawn up for unscheduled contract termination which is equally as important as managing the scheduled end of an outsourcing engagement.

Goolsby (2002c) observed that all thriving firms occupying topmost positions in their business arenas share one characteristic that keeps their market share positions secure and shareholder value growing which is, their decision to join forces with outsourcing

service providers. Nevertheless instead of using outsourcing just as a tactical means of driving costs and inefficiencies out of business processes or functions, they use outsourcing relationships to strategically enable their capability of doing business to be better than their competitors. Considering the value that can be achieved through such a strategic impact, outsourcing is now an essential element in leading organization's business models (Goolsby 2002c). Tompkins *et al* (2006) stressed the importance of provider-client relationship describing it as unique with no absolutes. In essence, the structure of the relationship between outsourcing organizations and service provider is based on how they react to each other on a daily basis. The outsourcing organization and the selected provider should determine the basis of the relationship early in the process by identifying how all parties will interact and the structure of the relationship.

Structure of an outsourcing relationship is also important. Therefore, outsourcing organizations are more likely to have a successful relationship with providers if they focus on the structure of their relationship. To this regard, the first step in structuring a relationship is to define jointly what they mean by a good relationship. After that, parameters would have to be put in place to assist in realising this good relationship. The methodology should be kept simple but complete. It is important to use personnel from both organizations with the decision-making authority. Once basic parameters have been set, a structure that works best for both parties can be determined. With the proper relationship structure in place and steps taken to ensure that the relationship is based on trust, the next step would be to establish the fee structure for the outsourcing engagement.

The fee structure for an outsourcing engagement serves as the basis for the service agreement between outsourcing organizations and service providers. The best fee structures are developed mutually after the parties have explored all of the possibilities. A fee structure should not be too rigid or one that would not allow for changes inherent in a long-term outsourcing relationship, but should be as flexible as the relationships that create them. It is important that parties explore each option before deciding on which one will apply to the outsourcing engagement. Their goal should be to develop a structure that works best for them. Once the right fee structures are determined, discussions on how to build in improvement factors should

begin. It is essential that the parties discuss their joint expectations of the potential for continuous improvement and fee structure. A realistic and detailed timeline is equally important for the outsourcing engagement. This should be developed before the parties get involved in legal issues necessary for cementing the relationship. Furthermore, Goolsby (2002c) explained that these initiatives that strategically affect an organization's competitive advantages in differentiating itself in the marketplace produce the highest value in an outsourcing solution, much more than reducing costs or streamlining processes. In an example, she explained that manufacturing firms, warehousing, distribution and other supply chain functions are essential components of success, however, the infrastructure required for such functions is a costly investment for a manufacturer and is best handled through leveraging economies of scale and expertise of a provider. This is because outsourcing enables firms to maintain agility as it grows, especially through mergers, acquisitions and divestitures. However, the most important aspect is being able to identify the existence of such opportunities and making the right decision. Therefore, the ability to meet unique customer requirements and tight delivery windows is what differentiates an organization from others.

In another government outsourcing study with emphasis on the development of a contractual relationship with a service provider, a distinction between regulatory contracting and performance contracting was made (Behn and Kant, 1999). In the study regulatory contracting focused on the activities of the contractor. The rationale behind regulatory contracting is that there is one best way to fulfil a contract, that is, the government is the best way. The government is able to specify in contract language all details of the best way, a service provider will attempt to cheat the government, and the government will collude with service providers for personal gain if given the opportunity. Regulatory contracts are also not viewed as an effective outsourcing approach because they create few incentives for contractors to achieve the public purpose of the contract. With a regulatory contract, neither the outsourcing organization nor the provider is held accountable if the contract fails to produce the desired outcome.

Though, performance contract is a regulatory contract, however in the few services outsourced in peacekeeping operation, performance has always being specified in the

SOW and contract. However, implementation has always been haphazardly carried out. At the peacekeeping operation in Liberia (UNMIL), the procurement section inserted a clause regarding the withholding of performance bond as one of the conditions that must be fulfilled by service providers. This involves holding onto 10% of a service provider's funds as guarantee against default. The service provider on the other hand goes to a bank to get this performance bond. However, before issuing the bond, the bank holds onto a fee equivalent to the same amount covered by the bond. Meanwhile the peacekeeping operation pays the service providers services executed as follows:

- 30% - first certificate
- 30% - second certificate
- 30% - third certificate
- 10% - Retention

A service provider has to execute at least 40% of the work before the first certificate of 30% is issued. When this is combined with the 10% withheld for retention, and the performance guarantee of another 10%, i.e. a total of 40% (work done) + 10% (retention) + 10% (performance bond) = 60 (total amount withheld). Therefore a total of 30% of the service provider's fee is tied down. This causes serious cash flow problems and prevents a service provider from performing at the desired result. Also service providers have on various occasions been requested by some peacekeeping operations to give discounts after their quotes have been accepted and this when combined with the fact that the UN does not give incentives for performance, only exasperates situations. However, performance contracting is a more effective approach to outsourcing because it creates incentives for a contractor to achieve the desired result of the contract. Performance contracting specifies expected results, allows the service provider to decide how to produce the desired results and only pays the contractor when the results have been achieved. The rationale behind performance contracting is that there are many acceptable ways to fulfil a contract, and the best way to motivate contractors who will implement that solution is to let them design it themselves. However, there are a number of potential problems associated with performance contracting. According to Eger *et al* (2002), performance

contracting might inhibit experimentation, encourage innovation in cost cutting but not service delivery, stifle overachievement, not provide for start-up costs, inhibit symbiotic relationships, reward promises but not performance, rely on outputs but not outcomes, use measures that distort behaviours, and undermine equity and fairness.

However, there are a number of strategies however, that organizations can use to overcome these potential problems. Paying service providers for significant progress and not just for the final outcome is vital because it encourages performance. Performance contracting must involve relationships that are linked to the mission of the organization, are easy to measure, understand and reproduce, and that facilitate benchmarking. Eger *et al.* (2002) in their work on US DOT outsourcing suggested that it is necessary to frequently monitor many performance indicators in addition to those specified in the contract. Being non-profit making, UN do not venture into performance contracting, although it is very cost-effective. The reasons are that these organizations do not have the managerial and technical skill to manage performance contract. Why? The UN, especially peacekeeping operations do not have suitably qualified staff. A reason for the unavailability of qualified staff is because the present recruitment method in the UN is based on quota or is dependent on the whims and caprices of project sponsoring nations whose citizens are selected because their countries are financing the project. Based on these reasons, one of the first areas that should be outsourced is recruitment. The Brahimi report and many other reports have recommended the recruitment of suitably qualified personnel from the private sector however the UN has failed to move forward in that direction. Even when this is done, it is still based on donor nations and on quota. The UN, at present should not undertake performance contract since they do not have the expertise.

Organizations must give consideration to a number of probable concerns arising from the changing organizational climate apart from transitional decisions regarding service provider selection and the development of a contractual relationship that occurs with transition to outsourcing. According to a study by Lieb (1992) that was based on a survey of chief executives in 500 largest manufacturing organizations in the US, some relevant issues that organizations should consider were identified. They are the two most common concerns regarding outsourcing which are a potential loss of direct

control over activities being outsourced and uncertainty about the level of services to be provided by the outside company. Other concerns include estimating the true cost of third party services and the potential internal problems that might result from a shift to outsourcing. Also noted in the study was that organizations mostly moved personnel around while some other positions were terminated. However, service providers absorbed some of the personnel. This may also be included in the terms of the contract.

An article by McIvor and McHugh (2000) on organizational changes resulting from transition to a service provider suggested a multifunctional organizational change strategy that supports cultural issues and has support and commitment from top management. The strategy requires collaboration across multiple levels in an organization. Middle managers should be involved in helping people understand new priorities and ways of operating. In addition, employees at lower levels are involved and allowed to participate in the transition so that they will understand the new values and systems that affect their own work. Furthermore, perspectives and responses from employees at all levels within the organization have a significant impact on whether the transition is successful. Accordingly, there is a requirement for changes in the cultural climate of the organization combined with a new focus on quality and customer relationships, if the transition to the third party provider is to succeed. Therefore attention must be given to these changes because performance is heavily dependent on attitudes and commitments of employees within the organization (Eger *et al.*, 2002). Regardless of the outcome, managing change is fundamental to the success of an outsourcing engagement. Assessing stake holder's requirement is the first phase of this process and having an open channel of communication is vital. An outsourcing objective must be initiated by top management and the process must be communicated down.

Lastly, the relationship between the contractor and the client organization's representative is crucial to ensuring that the service is provided as expected. Moreover, the client will want to improve the level of performance over time, so sound working relationships are important. Problems that might sour the relationship should be foreseen and avoided. For example, the person occupying the role of client representative might also be the person who prepared the unsuccessful in-house

tender. Organizations should, therefore, be prepared to make changes to their management, if necessary, to ensure that poor working relationships do not arise as a consequence of earlier decisions (Atkin and Brooks, 2005).

#### 2.5.5 **Implementing the Outsourcing Contract Successfully**

Once a contract is in place, the next step would be auditing the outsourcing organization's performance which would highlight how well the advantages of outsourcing are being achieved. Risk analysis supplements this audit by revealing threats to achieving a contract's expected benefits, as well as opportunities that a service provider may be missing vis-à-vis providing assurance, contributing to improvements, and developing understanding about the dynamic contexts, risks, and control issues involved in the outsourcing contract (Leithhead, 1999). Therefore during implementation stage, ideas and intentions are developed into a formal, planned outsourcing programmes leading to the transition to outsourced services.

Implementation issues must be addressed after a decision to outsource has been made and all costs and benefits included. It is important to recognise the complexity of an outsourcing engagement because it provides a better understanding of costs involved and enables the organization to develop a more successful contract.

There may be a need for independent verification and validation. External sources may be considered to assist an organization in managing the complexity of an outsourcing engagement. Organizations are available to help with defining statements of work, evaluating internal needs, evaluating service provider performance, and providing quality assurance. While these services represent additional outsourcing costs, they can enable the organization to reduce outsourcing risks and accomplish organizations' goals.

In determining what should be measured, it should be noted that several areas of measurement provide accurate and meaningful measurement. Lynch (2000) recognised the most common areas of measurement as warehouse operations, sanitation, productivity, order-cycle time, on-time performance, order fill, and



inventory variations. Therefore, depending on an organization's requirements the importance should be ranked differently.

Measurements are the primary means to determine the success or failure of an outsourcing process. Measurements ensure that a service provider is held accountable, and they determine the success of an outsourcing effort. If good measurements are not in place when the program begins, the contract cannot be managed effectively. Measurements identified early in the cost-benefit analysis should be used because they describe critical success factors where improvement should be seen. Measurements must reflect specific objectives of the outsourcing effort and must be readily obtainable through business processes and procedures. The standards are from three different areas and include;

- Outcome and performance based standards;
- Quality assurance standards; and
- Work and operational standards

The objective is to measure the success of a service provider in meeting the business needs of an organization. These measurements will be the tracking mechanisms for contract management, so contracts should include specifics about what will happen if standards do not meet agreed-upon expectations. It should be kept in mind that the type of contract signed will affect the standards used. For example, outsourcing contracts for consultants and applications will require more outcome-based measures, while technical support contracts may use a number of performance or work-based standards. Measuring the success of a project in relation to its goals is essential for outsourced application development projects.

Though forecasting the future is always difficult and often inaccurate, it is however, necessary. Accordingly the biggest challenge is to develop both costs (including hidden costs) and service requirements in light of expected technological and business change (which may be interrelated) over the expected life of the outsourcing engagement. The relevant requirements in outsourcing represent future costs. Without a good idea of future needs and the costs of meeting those needs, it is

difficult to outsource effectively and efficiently. In determining costs, it is important to first estimate administrative costs because it may cost more to administer an outsourcing engagement than it may cost to administer the same function internally. The reason is that these costs may vary with the size and complexity of a function to be outsourced and with the nature of the governance arrangements necessary to manage the outsourcing relationship. Once all costs have been estimated, this should be followed by a determination of whether the provider or the outsourcing organization should bear which cost (Leithhead, 1999).

An understanding of what is being measured is essential to ensure that appropriate business needs are being met and that analysis can be performed on standards selected. For example, tracking total costs does not allow for a breakdown of why costs increased. It will be important to know whether an increase was due to non-performance or to an increase in functionality that improved operating efficiency. Expectations should be well defined in a contract. Standards should establish what is expected and what happens if expectations are not met. It is advisable to use standards that support business goals. If cost-effectiveness is a major decision driver, contract provisions should include it to encourage the service provider to reduce costs for the organization. Contracts can also use incentives to encourage service providers to exceed performance requirements. Cost increases due to an addition of other services or additional work from the service provider are avoided if expectations are well defined so the scope of work is clear and explicit from the beginning.

Measurement should be tracked on a consistent and regular basis using different types of software that are presently available on the market that assist in tracking end-user performance-based standards. Standards and the pricing structure should be well described in the contract. Anything not specifically addressed in a signed contract is simply not in the contract. Revisions and changes to a contract can be made later as modifications or additional work with a corresponding expense charge. It should also be determined early in the scope of work how the contractor is to be evaluated. The scope of works should include whether the organization prefers a time-and-materials contract, labour-only, labour and material or a deliverables-based contract. Regardless of the type of contract preferred, there are important issues to consider on each side. A time and materials contract can lead to scope creep and a lack of service

provider accountability for the final ability of the project to deliver the needed service. A deliverables-based contract requires that the organization have criteria to evaluate deliverables on how well they meet defined expectations. Labour-only means that the organization must provide materials on a timely basis, less delay penalties would accrue to the service provider.

In measuring performance, Lynch (2000) stated that these four axioms apply across all industries and all providers:

- You cannot manage what you cannot measure;
- Performance standards must be measurable and achievable;
- Measure only what is important; and
- Performance measurement must be balanced.

Thus if an outsourcing organization does not know how well the provider is performing against agreed-upon standards and benchmarks, it will be impossible to evaluate not only the provider's efficiency but the outsourcing organization's own customer-service performance as well. On the other hand, performance standards must be measurable and achievable. As the relationship evolves, standards should be identified and agreed upon. As the operation comes online, however, it is important to initiate and conform to a regular measurement program. Realistic, measurable standards should be set and performance accurately evaluated against them. A common mistake is to establish standards that are so vague as to be absolutely meaningless which creates additional work for both parties. As a result, a measurement that does not have an impact on the operation, costs or customer service is not worth measuring. Therefore, only what is important should be measured. Too many measurements create too many details and lead to friction between the parties. Too few or too general evaluations make the performance difficult to manage. Measurement as well as the timing must be balanced (Lynch, 2000).

The method of measurement depends on the type of operation or service. Warehouse operations and sanitation usually are evaluated on a monthly basis, with

more comprehensive inspections performed annually depending on the manufacturing activity or end product. For a food manufacturer, the sanitation performance will be a more serious evaluation of the two and harsher penalties should be enforced for non-compliance. Sanitation audits can be conducted by outsourcing organization quality assurance personnel or by outside agencies. Whatever productivity items are measured, they should be evaluated against realistic and mutually agreed upon standards which can be derived from either historical data developed from experience or through pre-engineered handling standards.

On the other hand inventory performance is usually determined by balancing the physical inventory (cycle or total) against the book inventory of a provider as well as that of an outsourcing organization. The contract should contain provisions outlining how discrepancies will be dealt with, but consistent unfavourable variations can be an indicator of other problems, such as orders shipped incorrectly or receipts not counted accurately. Often these errors will manifest themselves in other measurement calculations but whether they do or not, underlying causes should be investigated thoroughly. Additionally, in measuring compliance with standards, the performance of each service provider can be compared with that of others, thus facilitating ongoing measurement and benchmarking within the entire system.

Since measurement determines performance levels, Lynch (2000) pointed out that exemplary performance should be rewarded and not be taken for granted. However, there is the tendency for organizations to forget that approval and recognition are basic human needs. To this end, he advised that two of the most important aspects of managing an outsourcing relationship are motivation and reward. Therefore, a number of organizations have come to recognise that compliments and acknowledgments of effort are proven motivators, and have established formal programs for doing so. Whatever method for motivating and rewarding is selected, it is important to remember that recognitions must be ongoing and frequent and should be properly directed. A well-placed, complimentary letter sometimes can be a better motivator than an increase in salary.

On a successful outsourcing relationship Murphy and Poist (2000) advised that the most important factors for successful third party relationships between user and

provider are customer orientation and dependability. Customer orientation refers to being responsive to customer needs. Dependability refers to services provided in a consistent and reliable manner. The third most important factor for successful relationships from a provider perspective is change orientation, which refers to a provider's ability to adapt to a changing business environment and develop contingencies to minimize system breakdowns. Finally, the third most important factor for a customer, and fourth most important for a provider are timeliness, services and information provided promptly.

However, in order to ensure successful partnerships with third party providers, an organization should ask several essential questions before outsourcing. In particular, it is important to ask whether an outsourcing relationship will reduce costs and improve efficiency in the organization. When looking for a service provider, an organization should consider hiring an outsourcing consultant or at least acquiring reliable legal assistance to negotiate the contract. However, an employee of an outsourcing organization should always remain an internal point person for searching for a provider. Once a provider is chosen, it is essential to clearly outline a complete scope of services being turned over to a service provider that understand the specifications of the contract. It may be necessary to include a dispute resolution clause. It is also essential to consider the length of the outsourcing agreement. For first time agreements, it may be beneficial to keep the contract short with a renewal clause at specific points. It is very important to have a clear set of objectives for the outsourcer, and that the outsourcer has a strategic plan to achieve the objectives. It may be necessary to consider penalties for not meeting and/or achieving objectives and incentives for exceeding them (Garr, 2001).

According to Petrick, (1996), several further strategies can be adopted by outsourcing organizations to develop and maintain a successful relationship. The requirements of all parties must be clearly defined and satisfaction criteria properly set to ensure that there is a common idea of expected results and terms of payment. Potential and existing problems must be fully disclosed and a culture suitable adopted. Finally, in-house project costs should be compared to outsourcing costs. Furthermore, it has also been observed that organizations are establishing relationships that allow them to turn to the provider repeatedly for various types of projects. High-powered outsourced

executive can be used frequently or seldom without layoffs. They are there when needed and not on the payroll when not required. This type of executive-level outsourcing has also been gaining momentum (Petrick, 1996).

Petrick (1996) added that an organization of the future must cultivate a knowledge base of the profession or industry it represents. Organizations should ensure that internal resources are focused on sustaining and advancing that knowledge base. Organization can select and negotiate the right long term relationships to perform functions that are peripheral to the maintenance of their knowledge base. The job of top management would be to oversee and manage the relationships. Accordingly, the most effective outsourcing arrangement is an ongoing relationship in which the outsourcing organization continually learns more about the client organization and its culture and can therefore serve it more fully.

However as outsourcing continues to evolve as the most effective strategic tool to achieve enterprise-wide value and competitive advantage, a contractual arrangement must be carefully structured to ensure deep relationships that endure over time. Accordingly a key element is establishing a strong governance module as part of the agreement (Goolsby, 2002b). On the other hand, Bendor-Samuel (2001d) considered outsourcing success as a product of enlightened governance. Thus, both sides of the outsourcing industry are making tremendous progress in understanding how to structure outsourcing transactions. In-house managers of outsourced services from the outsourcing organizations have studied outsourcing process, learned from others' mistakes and therefore know how to capture the value outsourcing brings to their organizations by structuring deals appropriately. Their resulting sophistication has removed historical inequality in outsourcing negotiations, where the provider had all the natural advantages. This phenomenon is called outsourcing governance, which he added, was crucial to outsourcing success because someone has to direct the work, oversee the output and nurture an outsourcing relationship. He also considered that an absence of outsourcing governance would cause a fundamental philosophical problem for outsourcing organizations.

Goolsby (2002b) agreed that building a governance agreement into an outsourcing engagement is a crucial component of ensuring successful relationship over the long

term. Accordingly such an agreement must reflect the mechanism of how parties must interact and communicate at various levels of both organizations. This would involve handling changing business needs and new objectives, including planning for the future and continuous improvement of the value they wish to achieve through their relationship. Furthermore, Goolsby (2007) was of the opinion that a long-term value proposition and a focus on building a mutually beneficial relationship are very important criteria that should be considered by all parties at the onset of an outsourcing process. This relationship should be strong enough to collaboratively work through issues that arise. In addition, Bendor-Samuel (2001d) identified these five rules as being very essential for successful governance:

- Though their function is to direct work and oversee the output of an outsourcing engagement, a governance team consisting of managers of the services being outsourced, with good business judgement skills should be assembled early in an outsourcing process;
- Managers from failed or previous outsourcing engagements should be replaced with a new team to prevent meddling instead of governance;
- Apart from the providers, a governance team should also be rewarded for the success of the outsourcing engagement; and
- As outlined above, to ensure that a governance team succeeds, they must be placed at a corporate level where they can fully perform their duties.

Goolsby (2002b) further stated that without an effective governance element in the agreement establishing how the outsourcing parties will work together on a continuous basis and at the required service level, long term success would be unpredictable. Therefore, a governance element in a contract would prevent misaligned attitudes and reaction from governing the relationship. Useem and Harder (2000) indicated that there are four very important capabilities managers responsible for outsourcing arrangements must possess are strategic thinking, deal making, partnership governance and change management. Strategic thinking involves an understanding of whether to outsource and how outsourcing services that improve an organization's competitive advantage can be accomplished. The second refers to the ability of managers to broker deals that secure services from external providers and

ensure their use by internal managers. The third capability refers to the ability to effectively oversee an outsourcing relationship after a contract has been established. Ultimately, it is essential for managers to be able to manage change because organizations transitioning to outsourcing are likely to encounter employee resistance.

Tompkins *et al* (2006) added that it is also important to remember that addressing internal staff concerns is not a one-off situation. Though not permanent, resistance is inevitable and would last for a while in the life of the outsourcing engagement but would eventually recede. Therefore, the process of easing concerns should be used to strengthen the relationship with a provider as the organization strives to structure the outsourcing relationship. Also considered important is the relationship between the provider and the outsourcing organization as unique and unconditional. Essentially, the structure of the relationship between an outsourcing organization and a provider is based on how they react to each other on a daily basis. The outsourcing organization and the selected provider must clearly define the basis of their relationship, by identifying how all parties will interact and the structure of their relationship. Another aspect that ensures successful outsourcing is rewarding deserving providers, this Bendor-Samuel (2001a) indicated can be done by:

- Assisting providers win more contracts in the organization and in the market place;
- Extending provider's contracts;
- Relaxing service level agreements that are important to providers but insignificant to outsourcing organizations; and
- Encouraging providers to do more by reinforcing their value which will reduce the likelihood of failure in relationships.

Similarly, exceeding the levels may be seen as a potential trigger for bonus payments or other incentives, payable when a quantifiable benefit to the client can be seen. It is important for the contractor to know that they will be properly rewarded for success. If the supplier can add real value to the client's business, clients should be willing to share the value gained as a result of superior performance, in this way, service level objectives become highlighted as a critical parameter for both parties (Booty, 2009).



Lynch (2000) advocated that it not be necessary to manage operations of providers, but rather an outsourcing relationship should be managed by knowledgeable, thoughtful outsourcing organization's relationship managers. Providers must be communicated with, monitored, evaluated, motivated, and rewarded. This will be a measure of success in the outsourcing relationship. As outlined earlier, the importance of communication cannot be over emphasized in successful outsourcing relationships. Using informal and formal communication methods employed by 63 highly successfully outsourcing relationships, Goolsby (2002b) selected the following 12 best practices in influencing attitudes for managing outsourcing relationships in respect of the communication component of an outsourcing governance agreement:

- The appointment of an employee from an outsourcing organizations with decision-making powers as relationship manager for outsourcing engagement;
- The development of peer friendship and deep understanding among counterparts from outsourcing and provider organizations;
- Structuring outsourcing relationships around a strategy that ensures frequent informal communication on an ongoing basis such that service provider employees are treated as part of the outsourcing organization;
- The establishment of a special board or committee that discusses problems, new ideas and reviews service level performance data on a regular basis;
- The appointment of an additional manager when implementing new objectives;
- The prioritization of action items on the outsourcing engagement;
- The use of planning sections to review effectiveness and strategic impact of relationship with service providers;
- The establishment of more frequent formal review meetings especially in the manufacturing industry or IT application development;
- The logistic of the meeting venue must be included in decisions to convene a formal meeting to discuss strategic goals and review performance;
- Top management level steering committee should be formed when the strategic objectives of a party's agreement dictates facilitating each others growth;

- The involvement of outsourcing organizations in the selection of key service providers staffs for day to day interaction between the parties; and
- The use of corporate weekly bulletins or newsletter for disseminating information to staffs especially during implementation and transition phases of a relationship.

Tompkins *et al* (2006) concluded that a strong relationship established at inception and carried throughout, will prevent outsourcing setbacks later and that communicating and interacting with the selected provider as a true partner will help ensure a successful relationship and therefore successful outsourcing. It is also crucial that continuity of service is maintained at all times especially during handover of these services to ensure that there is no deterioration in the quality of service delivery and timelines and deadlines are not compromised. Also a governance agreement should also form part of any outsourcing contract. A governance agreement is more than a statement of how the parties in an outsourcing engagement desire to manage their relationship on an ongoing basis and designation of individuals empowered to solve problems but also ensures an enduring relationship (Goolsby, 2002b).

#### 2.5.6 **Managing the Re-negotiation or End of the Outsourcing Contract**

Today's managers are looking ahead and recognizing that the responsibility for ensuring the success of an outsourcing engagement does not stop once a contract is signed. A combination of uncertainty with a lack of attention to critical detail has created a present day scenario where outsourcing contracts are renegotiated or cancelled shortly after they are signed. To circumvent this, ongoing management of a relationship is required which should be done through meetings to ensure that problems are resolved and changes are agreed on thereby ensuring continued satisfaction.

According to Booty (2009), a key area, often overlooked at the outset of any contractual relationship, is what happens when the contract comes to an end; and it will, eventually. Few companies can afford to go 'on hold' while they sort themselves out; competitors are waiting to swoop in and take advantage of the gap in the market.

Bragg, (2006) was of the view that a manager must be able to make an informed decision when an outsourcing arrangement is no longer a viable option. Termination becomes inevitable when providers can no longer meet minimum service level and contractual obligations. Unfortunately many contracts specify termination in terms of the contract to avoid misunderstanding and ensure a hitch free end of contract relationship. Cloete (2002) also agreed that it is essential to include various measures that can be implemented in an escalating fashion when a service provider is not performing their obligations in the outsourcing agreement.

Contract renegotiation is an element that is often ignored or played down. It should be recognised at the beginning that the contract may change, or that a contract will end. According to Booty (2009), the end-of-contract options are to:

- Sign a new contract with the same service provider;
- Sign a new contract with a new service provider; and
- Move to internal resource management or bring the function back-in-house.

Any of these options involves significant organization time, money, and difficulty. The reason for signing a new contract with new service providers maybe due to several reasons, either because the first contract failed to live up to the service provider's or outsourcing organization's expectations. Signing a new contract with the same service provider may lead to higher contract costs as the organization becomes tied down with working with one service provider. Selecting a separate service provider will entail transition costs as one service provider moves out and another move in. There will be a learning curve for the new service provider, along with additional management and resource costs to the organization. There are also new contract and negotiation costs since another contract needs to be signed and managed. Switching to internal resources require that knowledge about the project exists in-house, and that adequate staff resources (time and personnel) exist to support it. Transition costs will again occur in this situation.

Many companies stay with existing providers through inertia, and fear of change. They may be unsatisfied with the existing arrangement, but they suspect that it would be easier to obtain improved contract terms, and tighter SLAs, from a new contractor, than by renegotiating the existing arrangement. This has dubious logic. The possibility, necessity, even, for change and continuous improvement should have been built in from the start. Changing contractors can take a year or more to organise, and is an exercise that is fraught with hazards, including the possibility of delaying tactics from the outgoing contractor, removal of key staff and run-down of efficiency, and possible confusion over ownership issues of dedicated equipment. Many of the same reservations apply if attempts are made to bring operations back in-house, since key assets, in terms of people, knowledge and equipment, have been relinquished, and you should also ask why you chose to outsource in the first place (Booty, 2009).

A common trait among failed relationships is that outsourcing parties fail to start off with a trusting working relationship where there is an understanding of each other's expectation and motivation which would result in good dialogue. Trivial costs, inadequate staffing and inflexibility on the part of the provider and the outsourcing organization were identified as additional areas of problem characterising failed relationships. Therefore, to ensure the success of a new outsourcing relationship, parties should enter into an outsourcing contract that allows for growth (Goolsby, 2007).

Furthermore, Bragg (2006) indicated that backing out of an outsourcing engagement may be due to incompetence or high prices of the provider but however it can be prearranged to ensure that the termination is as smooth as possible. Once a termination decision is made, an outsourcing organization must decide whether to move the function back in-house or shift to a new provider, which is usually driven by the presence of another provider that is considered capable of performing the task at a fair price. Returning a service in-house means that previous outsourcing experience was extremely negative in term of costs, poor service or bad relationship. Otherwise top management may feel that another provider may do a better job, therefore, the function should be moved to another provider. Though termination comes in various contractual terminologies, however the easiest to manage occur in transitional

outsourcing, where a provider is brought in to see the end of a system and usher in a new one (Bragg, 2006).

In most instances organizations that experience a failed outsourcing relationship would usually want to treat only the symptom of the bad relationship with the previous service provider. This practice is usually not the answer, unless what caused the original relationship to fail is first determined, or else new problems would be created in a relationship by over-treating the symptoms. It is recommended that the outsourcing organization informs new provider(s) that it has just come out from a failed relationship and advise him for the cause of the failure and ask for the provider's advice towards avoiding a repetition of the same in failure in future. Therefore, after a failed relationship, communication is vital, hence end-users should be informed early in a negotiation process of the need to take on a new service provider and why a new outsourcing engagement would be valuable to the organization and how it would benefit them (Goolsby, 2007).

To circumvent failure Bendor-Samuel (2001a) highlighted common mistakes made by providers in an outsourcing engagement that should be avoided:

- Ignoring the customer's unique needs;
- Ignoring the importance of leverage;
- Avoiding accountability; and
- Sending another team to manage the account

Bendor-Samuel (2001a) further expatiated that providers have the tendency not to listen closely to what their customers want but rather to tell them to do things their way which results in higher prices. Providers should rather focus on what creates value for their customers. He also underlined the importance of using leverage in an outsourcing engagement since it creates benefits for outsourcing organizations. Furthermore, providers try to shun responsibilities because of risks attached to it, however, maximising an outsourcing relationship, requires providers to align their interest with that of outsourcing organizations. Moreover, considering how much effort providers have to put in each day to make an outsourcing relationship work, it

would be foolhardy on their part to allow customer dissatisfaction and inflexibility in service provision. Therefore, a balance scorecard should be created when determining performance bonuses.

Since not all failed relationships are caused by the provider, Bendor-Samuel (2001a) further identified common mistakes made by an outsourcing organization that may lead to failed relationships. These mistakes should be prevented from reoccurring in the life of an outsourcing engagement. The mistakes are:

- Relying too much on executive contracts;
- Letting the provider lead the process;
- Paying by problem resolution;
- Interfering with the process;
- Signing a contract with too long a term;
- Evading accountability; and
- Forgetting the provider is a business asset.

Since an outsourcing organization would divest a process they currently own including the transfer of human and material assets, therefore they must involve not only top management but also in-house and/or external experts to ensure that the outsourcing engagement does not fail. Furthermore, although a provider is the expert and any attempt to dictate how the provider should perform the services may lead to increased costs and lower quality services. However, an outsourcing organization should know precisely its requirements before delving into an outsourcing engagement. Therefore, providers should not just be paid for fixing problem but rather for correcting underlying causes of a problem and also they should do things their way and not in such a way that allows an outsourcing organization to enjoy leverage. Additionally, contract durations should be appropriate thereby ensuring long term relationships and short term contracts. Moreover, the right people from the outsourcing organization should be assigned to manage the process, which would guarantee proper accountability. It should also be noted that providers are an essential element in an outsourcing engagement, hence must be rewarded according (Bendor-Samuel, 2001a).

For contract negotiation to work effectively and efficiently, groundwork must be laid during the contract management process. Successful management of an outsourcing engagement means that ongoing relationships are maintained with service providers during the course of the project. An outsourcing agreement should enable outsourcing parties to share risks which would create incentives in making the right decision and the relationship should be give-and-take that is sound from top to down. Time should also be spent jointly defining the detailed service levels agreements which would drive the outsourcing organizations' business. These agreements should be less punitive and more productive in nature. This is more so in situations where the outsourcing organization was involved in a past bad relationship with a provider. Furthermore, an outsourcing organization has to position itself for renegotiations where it can cater for specific areas of concern, recommend useful contract changes, and still offer the possibility of ending the relationship with the original provider(s) as a viable alternative. It is therefore essential to understand that renegotiations will occur in even the best planned outsourcing contract due to unforeseen changes in technology or business needs. Therefore there is a need to ensure preparedness for renegotiation and understandings on what types of leverages are available to the organization.

It should also be noted that transition from a current provider can be very difficult. Therefore, outsourcing organizations would need to recognize that current providers often need incentives to fully cooperate in the transition (Goolsby, 2007). In the need to ensure a successful conclusion to outsourcing partnerships, Petrick (1996) recommended the following essential strategies for seeking and maintaining relationship with providers:

- An outsourcing organization should clearly define and specify their requirements in specific terms and ensure that both parties fully understand the parameters of the outsourcing engagement. Expected outcomes, results, time frames, and terms of payment should be mutually agreed on;

- Satisfaction criteria must be set making sure that both parties live up to their agreement. The reason is that in a successful strategic partnership, each party has a responsibility to the other;
- There should be honest open communications between the parties;
- Projects should be strategically chosen and consideration given to the merits and demerits to avoid unanticipated consequences before outsourcing;
- Outsourcing partners should be cautiously selected ensuring that a full reference scan is carried out;
- The cultures of the outsourcing organization and the provider should be compatible;
- The end results of outsourcing relationships are considered to be more important than the process;
- Reporting criteria should be established and progress monitored and tracked on a regular basis and highlighting important milestones which provides helpful parameters to the outsourcing organization;
- A realistic analysis (considering all known costs) should be conducted on cost of executing the project in-house as a benchmark in evaluating the cost to outsourcing;
- Price and performance standards for responsibilities, expertise, and risks involved should be negotiated without compromising on quality and expected results;
- A realistic time frame should be established to judge results with the aim of creating an ongoing, renewable relationship; and
- Ensure that staff of the outsourcing organization interacts with the service provider staff to provide interaction on the project.

Though not advisable, outsourcing organizations may decide that termination is not an option. Therefore, to avoid terminating contracts, the best way forward is to pay a higher fee in exchange for month-to-month services so that the outsourcing organization can observe service levels and the outsourcing relationship thereby ensuring that it is comfortable with the provider before entering into a longer-term contract. However this is only suitable for minor contracts that do not required commitment from both parties and cannot be handled on a transitory basis (Bragg,



2006). Lastly, emphasis should not be attached only to the winner of the renegotiated outsourcing contract but rather on negotiating a reasonable contract built on consensus and issue resolution for the outsourcing parties.

The next section deals with identifying and choosing alternatives based on the values and preferences of the decision maker and developing criteria to choose the best approach.

## 2.6 DECISION-MAKING CRITERIA

Making a decision implies that there are alternative choices to be considered, and in such a case we do not only want to identify as many of these alternatives as possible but to choose the one that best adapts to our goals, desires, lifestyle, values, and so on (Harris, 1998).

Decision-making is an informed selection of a solution for a problem. Important elements of this process include considering a range of alternatives and developing a criterion to choose the best approach. On the other hand, criteria are the characteristics we want our choice to meet. The alternatives available influence the criteria we apply to them, and similarly the criteria we establish influence the alternatives we will consider. Decisions are always necessary when there is need for change. This change may be in the form of improving performance. There should always be some standards determining optimal allocation. A study carried out by the Robotics Research Group at the University of Texas at Austin, titled “RRG Research Decision-making and Performance Criteria,” referred to these standards as performance criteria. Performance criteria are vital when trying to improve performance. This is usually reached by defining the right criteria. Numerous performance criteria are usually developed and refined. However, due to mathematical complexity of performance criteria, there are some issues usually dealt with before they are applied to a decision-making process. These issues include sub-framed dependency, scaling, normalisation, task dependency, level of redundancy resolution etc. In the centre of this is normalisation, which, if not done properly could render the decision-making scheme ineffective.

Accordingly, every decision we make or do not make shapes our future. However it is easy to overlook an important factor, miss a desirable option or base the decision on unreliable information. In addition, fear of making a wrong decision may delay decisions leading to missed opportunities. A structured decision-making process ensures that important decisions are made on time and are based on fact, research, and analysis. The most important aspect of structured decision-making is to recognise and analyse components of a decision which involves these steps; context, objectives, options and criteria. Effective decision-making processes ensure that all four components are analysed. The first step determines the importance and context of the decision. In the second step, desired outcomes are highlighted and outcomes that are to be avoided are indicated. The third step, ensure that all methods are identified. To encourage creativity all options should be listed without criticism. The objectives should be reviewed as the criteria that will be used to rate the options developed. These criteria are clear conditions which must be met in order to have a useful decision or soft criteria that require subjective or qualitative analysis. Important rating should be assigned to each criterion. According to Sorach Inc (2000) an information portal on the World Wide Web, once these options have been established, they should be evaluated against the criteria.

Furthermore, in the measurement of validity and reliability, a criterion, is the standard by which a measure will be judged or evaluated (Kelly, 1998). The most promising options are then analysed to determine how they may be applied and what result they will produce. The options are analysed to gain a clear understanding of their implications before applying the decision- making criteria. This ensures that options are not discarded prematurely and that an accurate analysis takes place. It is also important to consider how many project decisions are made without formally evaluating potential consequences. The application of formalised risk management can improve a decision-making process within projects and help organizations to reduce risk exposure (Patterson, 2005). The economist magazine report (January 2<sup>nd</sup> 2003 Issue) stated that chief executive officers (CEO's) should implement a reliable risk management solution throughout their organization. Such a solution not only analyses risks, but also alerts top management of potential problems at early stages (Garten, 2003). The elements of risk should always be considered in all decision-making. Force Field Analysis may also be used to uncover risks or difficulties which

need to be overcome when implementing the options. These are future outcomes that are influenced by unexpected factors that are not under the control of a decision maker. Thereafter strategies can then be developed to manage those risks.

**Table 7:** Criteria development Problems and Solutions

**Source:** State of Texas, Department of Information Resources, (1998), Page 10

Criteria Development Problems	Solutions
Expectations regarding the project are unclear	Do the planning at the start to identify the purpose of the project, the organization's resources available for the project and the specific type of outsourcing that would match the project.
A lack of understanding of the project makes it difficult to identify and weight the costs and benefits of internal and external resources.	Allow sufficient time to research the project fully, contacting any internal or external experts available to the organization. Some resources readily available include other organizations and universities
Failure to compare the costs and benefits of internal and external resources on an equal basis leads to inaccurate analysis. A comparison of Full Time Equivalent (FTE) Costs to the contract total does not account for the soft costs included in the contract. Costs to the organization for in-house resources will be higher than a simple FTE count when soft costs are considered.	Evaluate the project on a matrix or weighted average list, providing consistent examination of the same options when discussing both internal and external options. Ensure that costs are clearly documented and all formulas for deriving costs are identified. This enables costs to be identified.
An accurate analysis of costs and benefits is difficult to make because there are not priorities in place to help identify and measure the needs of the organizations	Plan to identify priorities and establish weights for each criterion. Involve stakeholders and ask top management for inputs
The hard-to-quantify nature of some of the soft costs and benefits, such as "business advantage" or "access to expertise: make these costs difficult to identify.	Identify priorities and weights will help when including qualitative cost and benefits in the analysis. Establishing success measures that examine projects outcomes in light of organization's goals will add needed substance to the qualitative costs and benefits

In identifying outsourcing decision-making criteria, it is necessary to first recognize whether or not outsourcing is appropriate. To achieve this, several background questions must be answered. Table 6, illustrates the analysis process that helps to ascertain if outsourcing is an option, or if in-house staff represent the best use of organization resources. Once it has been determined that the use of external resources may be an option that would meet business needs, a cost-benefit analysis should be

used to compare what should be outsourced. However, according to Deloitte and Touché, (1996), a major problem with an outsourcing staffing decision happens when such a decision is based on a lack of understanding of expected benefits. A survey found that actual outsourcing contracts did not meet user expectations in any of the following five areas surveyed:

- Service provider expertise;
- Better focus on core competencies;
- Improved quality/delivery of IT services;
- Reduced costs; and
- Improved transition to new technologies

**Table 8:** Sample list of Cost-Benefit Criteria - Quantitative Direct Costs

**Source:** State of Texas, Department of Information Resources, (1998), Page 12

<b>Quantitative Direct Costs</b>	<b>In-sourcing Considerations?</b>	<b>Outsourcing Consideration?</b>
Personnel costs	YES	YES
Fringe benefits	YES	YES – embedded in contract
Materials/supplies	YES	YES
Maintenance/licences	YES	YES
Training	YES	YES
Contract (e.g., if some maintenance/ other peripheral services will still be performed by other service providers)	YES	YES
Telecommunication charges	YES	YES
New equipment costs	YES	YES
New software costs	YES	YES
Rent	YES	YES
Utilities	YES	YES
Travel	YES	YES – may be embedded in contract

Cost-benefits analysis enables decision makers to account for the full cost and benefits of outsourcing options. The analysis helps to prove or disprove whether a project supports an organization’s goals and outcomes in the most effective manner. Its value stems from its inclusion of both qualitative and quantitative measures. A simple cost comparison will not show all true benefits or costs of a staffing decision. An outsourced solution may prove to be more costly or require more time, but may still be the best solution to meet the needs of an organization. Such decisions, however, must be fully documented with a comprehensive cost-benefit analysis in order to be justifiable (State of Texas, Department of Information Resources, 1998).

Other methods include, decision-making using multiple criteria. This method is used based on the assumption that in the real world, decision-making problems rarely collapse in to a neat single objective diagram. In addition according to classification of real world examples, spatial decision-making problems mostly fall in the bottom right cell, where world problems are inherently multi-objective in nature and consensus rarely exists concerning the relationship between the various objectives. Decision-making using multiple criteria is more appropriate to identify and maintain the multiple criteria nature of world problems for analysis and decision-making. Furthermore, decision makers are frequently interested in the trade-off relationship between various criteria which allows them to make the final decision in a political environment. This method entails choosing criteria and assigning weights to each criterion to identify its importance (Balcomb and Curtner, 2000).

**Table 9:** Sample list of Cost-Benefit Criteria - Quantitative Direct Benefits

**Source:** State of Texas, Department of Information Resources, (1998). Page 12

<b>Quantitative Direct Benefits</b>	<b>In-sourcing Considerations?</b>	<b>Outsourcing Consideration?</b>
Monetary value of staff time saved	YES	YES
Monetary value of new operating efficiencies (e.g., number of additional licences to be processed)	YES	YES – maybe evaluated on the basis of different technical solutions proposed by internal or external resources

In common complex task completion, multiple criteria are needed. To linearly combine these criteria popular method for dealing with multi-criteria optimisation, they must be properly normalised so that magnitudes are comparable and their weights correctly represent their relative importance. Linear mathematical formulation of fuzzy multiple criteria objective decision-making methods can be applied in organising activities. In this respect, fuzzy parameters of linear programming are modelled by preference based membership functions (Petrovic-Lazarevic, *et al*, 2003).

To ensure that a decision-making process is streamlined, it is necessary to make it more efficient and more accessible to users by developing decision-making strategies. According to the State of Texas, Department of Information Resources (1998), knowing and comparing organizations costs and benefits at the start enables them make the best decisions and act efficiently upon these decisions. It is important to compare costs as equally as possible, although confusion can arise for several reasons. Some of the problems and solutions are detailed in Table 6. Furthermore, Tables 7 to 11 provide examples of costs and benefits to consider when attempting to isolate specific costs and benefits important to the project. According to State of Texas, Department of Information Resources (1998), the list is not intended to be exhaustive; instead, it should serve as a beginning point for determining appropriate criteria. Some of these costs may be the same for both options, for example, if external resources are working on-site, they will have the same utilities cost as the in-house resources would have. In the same way, benefits may also be similar.

**Table 10:** Sample list of Cost-Benefit Criteria - Quantitative Indirect Costs

**Source:** State of Texas, Department of Information Resources, (1998). Page 12

<b>Quantitative Indirect Costs</b>	<b>In-sourcing Considerations?</b>	<b>Outsourcing Consideration?</b>
Administrative overhead	YES	YES – embedded in contract
Divisional overhead	YES	YES – in some cases
Costs to other organizations or citizens	YES	YES – this is a project cost
Contract administrative costs	NO	YES – this will include internal resources and time

**Table 11:** Sample list of Cost-Benefit Criteria - Quantitative Indirect Benefits

**Source:** State of Texas, Department of Information Resources, (1998). Page 12

Quantitative Indirect Benefits	In-sourcing Considerations?	Outsourcing Consideration?
Service improvement to citizens	YES	NO
Flexibility of solutions	YES	YES

A final consideration regarding analysing of an outsourcing decision is the importance of recognizing the full costs of external service providers. On many occasions costs are not explicitly seen, but are accounted for in the fees charged by a service provider. The recognition of these embedded costs is necessary in order to make a consistent comparison between options.

**Table 12:** Sample list of Cost-Benefit Criteria

**Source:** State of Texas, Department of Information Resources, (1998). Page 12

Quantitative Direct Benefits	In-sourcing Considerations?	Outsourcing Consideration?
Availability	YES	YES
Quality of service	YES	YES
Impact on staff, other organizations and citizens	YES	YES
Legal environment	YES	YES
Security	YES	YES
Sensitivity	YES	YES
Planning time	YES	YES
Project time	YES	YES
Operational risk	YES	YES
Technology risk	YES	YES
Relationship risk	YES	YES

In identifying outsourcing decision-making criteria, Eger *et al.* (2002), compared US DOT and the manufacturing sector and agreed that they both rated business qualifications of provider as the most important factor influencing an outsourcing

decision. In addition, cost was considered as an important influencing factor for the US DOT which is inline with most public sectors ranking of cost information high on the list of informational needs to begin outsourcing.

Other criteria that may influence an outsourcing decision are usually quality, reputation, and operational excellence. For most manufacturing organizations, financial stability, operational excellence, cost, and quality are equivocally some of the most important factors in selecting a provider (Eger *et al.* (2002). In the past, although a provider with the lowest cost is usually the justifiable choice, however, presently that notion has changed. Instead, outsourcing organizations have recognised that selecting the right outsourcing partner is a key to maximising the effectiveness and value of the relationship, hence outsourcing success.

An organization must therefore, carefully assess the capabilities of potential outsourcing partners (Manring, 2001). In my opinion, non-profit making organizations do not usually consider financial gains (profit) a factor as a reason for outsourcing, however low priced providers are considered provided that other selection criteria are met.

Decision-making regarding outsourcing of non-core activities of UN peacekeeping operations are presently being handed down from the headquarters and this is not about to change. However to ensure a more efficient and effective decision-making process that is realistic, some of the decision-making should be carried out at the local peacekeeping operation level. Local operations of the UN should form part of or be included in the decision-making process. The reason is that being physically present and on-site they would have a better insight and understanding of the geopolitical situation and they fully understand the requirement and know the required criteria. However, strategic aspects of decision-making can be initiated and drafted at headquarter level but most of the input should come from the local operation. Decisions may also be shared between headquarters and the local operation.

In essence, criteria used to reach a decision invariably determine the choice of selection of service providers. Local service providers, though smaller, tend to enrich, empower and support the local economy. Decisions made at headquarters level to



outsource to larger service providers should be reserved for only highly technical and sensitive services that cannot be provided locally. Examples include supply of medical and communication equipment. Therefore the decision-making criteria should be flexible, realistic and applied on a case by case basis.

In my opinion the following important criteria should be considered in decision-making by the UN; legal, economic, and political considerations as well as the empowerment of the local population. Political consideration for example, involves outsourcing to less qualified local service providers to empower the local populace and encourage capacity building. On the other hand, political factors sometimes influence decision-making in profit making organization also but generally this occurs where it is seen as advancing enterprise profitability (Schwartz, 2004).

There are different criteria to consider when applying these lessons to the public sector. An example of typical criteria to consider in selecting a project delivery approach includes the following; initial project cost, final project cost, budget certainty, budget risk, potential for savings returned to the owner, early price commitment. Ability to manage owner scope changes, preconstruction services provided, speed of project design and construction schedule, schedule certainty, quality control, design liability, risk of claims are criteria which form keys to successful project delivery (Schwartz, 2004). Other essential components for an outsourcing decision-making process include establishing policies and procedures and performance incentives. A provider's (client's) policies and procedures are not used for defining policies and procedures for outsourcing (Eger *et al.*, 2002). However the manufacturing industry and service providers developed their own unique policies and procedures to meet the needs of the particular outsourcing venture unlike public sector organizations. These criteria form the basis of the decision-making scorecard. (Eger *et al.*, 2002). It is my opinion that only on rare occasions are unique policies developed for specific projects which would be considered as an indication of the value history plays in decision-making in the UN.

However, organizations need to recognise that successful outsourcing of estate-related services comes from a process in which policies are clearly defined and procedures are progressive and transparent. All of this takes time and so organizations must plan well

ahead before embarking on an outsourcing route. If followed carefully, procedures that lead to outsourcing can provide a firm basis for the subsequent management and administration of contracts (Atkin and Brooks, 2005).

Performance incentives apply to all outsourcing projects. The differences between the public sector and the manufacturing sector appear to be a function of the institutional setting, including limitations placed on them as non profit organizations with respect to monetary rewards. Therefore, when addressing performance incentives, it is assumed that the manufacturing sector would regularly offer providers gain sharing or at least sometimes, while non-profit organizations would never offer monetary awards as a form of incentive due to the nature of their operation. Therefore rewards and incentives may be considered as performance enhancement criteria for private sector organizations but not non-profit making organizations such as the UN. It is also important to consider specific cost-benefit criteria. In doing this, the analysis should begin with a statement regarding the type of outsourcing under consideration (i.e. transitional or sectional) and the main project objectives. Costs and benefits will follow from the analysis because each item is identified and weighed in the light of these statements. It is also important to provide a simple criteria template for an outsourcing versus in-sourcing cost-benefit analysis. In doing this, criteria, priorities and weights must be determined for each project depending on its individual circumstance.

Furthermore, a document by the department of Information resources at University of Texas at Austin, 1998, titled “Guidelines for Evaluating Internal and External Resources of Major Information Technology” *Outsourcing Strategies*, highlighted these rules as important cost-benefit analysis rules: “Benefits are as important as cost. Even if an option may be quantifiable more expensive, it may still be the most effective choice for meeting an organizations needs. Also a project will be difficult to justify or support if the project lacks specific, measurable goals and consistent, reliable information about the real costs and benefits of the project.”

The document went further to state that cost savings remain a primary criteria and driver for management interest in outsourcing. The document also noted that cost savings are not always seen in outsourcing engagements, depending on the reasons

behind outsourcing and the type of outsourcing used. However, cost avoidance is also a consideration. Cost avoidance should not be used as a justification for making an outsourcing decision but can be considered as a potential benefit that may result from the decision.

In defining cost criteria, three general types of fiscal costs should be considered, project, management, and ongoing. A further criterion that is crucial to the success of an outsourcing project is measurement. Measures quantify the ability of both internal and external resources to meet end-user needs, analysis for strengths and weaknesses and evaluate alternative option for making changes. The right measurements are essential for evaluating options available for an organization (Eger *et al.* (2002). Therefore measurements are important criteria in outsourcing decision-making.

In addition qualitative criteria should also be considered such as time, risks, staffing and business value. The time available to complete a project is an essential factor in the decision about what type of resources to employ. Risk identification is an essential part of the analysis process since risks affect priorities and cost and benefits because of their impact on outsourcing project success. For example, using internal personnel who are knowledgeable of applicable goals, objectives and strategies of an organization's project helps to assure that the project will meet the need of the organization.

The need to avoid already overburdened resources may be an important consideration in the decision process. Understandably key staffing questions will enable an organization to identify previously unconsidered cost or benefit such as staffing issues (internal/ external resources, contingency planning and access to expertise) and their significance. Organizations should examine costs and benefits of using internal or external resources to determine the best possible application of their limited resources. Deciding that outsourcing is a viable option is usually because of one of two business value reasons such as, a determination of whether an external service provider can meet all business requirements at a cost lower than that provided by internal resources. Beneficial gains that otherwise cannot be achieved could be another reason (University of Texas at Austin, 1998).

Various organizations have a different range of criteria that are considered when evaluating alternatives to ensure that decisions are reached. A sport authority may consider the following items as their criteria for assessing options (Katrichis, 2002);

- Consistency with the Sports Authority mission statement;
- Short and long term profitability of the alternatives;
- Financial ability to execute alternatives (current resources);
- Effect on market share;
- Effect on sales; and
- Impact on existing customers

In his presentation on marketplace trend in Internet Protocol acceptance, Mr. McGrath, CEO Toshiba USA, drew on the trends and experiences of their authorised Toshiba Dealers at more than 800 locations through out United States and stated that: “From their experience, we have identified trends in decision-making criteria, real-life usage and how enterprises are making the transition to IP telephony.” Thanks in part to CEO’s effort, Toshiba Voice/Data Mobility offerings has gained market share year after year and has improved efficiencies for enterprises worldwide (McGrath, 2005).

Applying the right decision criteria determines the success or failure of a project. Deuser (1996) also agrees that before developing a control programme there are several criteria that must be addressed to assist in a decision-making process. Most programmes/project would not be feasible without the use of applicable decision tools or criteria. Proper decision criteria aid in prioritizing and developing successful programmes/ projects.

Apart from the usual considerations such as costs, investments, flexibility and return on investments utilised by managers in making product decisions, other criteria to be considered include:

- Manageability; and

- Time to market

When these other criteria are considered sound product decision may be reached to deliver quality services. However, in making technical decisions, various decision criteria must be synthesized and the relative value of each alternative assessed. The challenge is to integrate such diverse criteria to arrive at the best decision. A hierarchical framework can be used to collectively assess a variety of criteria that constrain technical decisions. This framework can then be adapted to help structure any problem where conventional process optimization techniques do not directly apply, regardless of the complexity of the problems since it addresses objective and subjective criteria (Reid and Christensen, 1994).

Developing criteria for decision-making is equally essential in the building industry. As vital decisions are made during building design, the process and accompanying tools assist the design team in prioritizing their goals, setting performance targets and evaluation design options to ensure that the most important issues affecting building sustainability are considered. A process called Multiple-Criteria Decision-making which is designed to guide design teams through stages in a way that makes sustainable building design easy and inexpensive. This process facilitates the communication of team priorities, the setting of performance goals and the evaluation of proposed building designs with the context of the conventional building design process to ensure ultimate building sustainability (Balcomb and Curtner, 2000).

Applying the right decision criteria determines the success or failure of a project. Therefore, before embarking on an outsourcing engagement several criteria must be addressed to assist in a decision-making process. These various criteria, derived from several sources and commonalities, provide important indicators, categories, attributes, and standards for the development of an outsourcing decision-making scorecard (Eger *et al*, 2002). The derived scorecard must define clear objectives allowing for common terminology and application. The goal of the next section is the development of an outsourcing decision-making scorecard.

## 2.7 DECISION-MAKING SCORECARD

The concept of performance criteria is not a new concept for most organizations. In various facets of support services of the UN, performance measurements are based on established performance criteria. Typical areas include engineering, IT, facility management and supply services. However, a traditional focus of a scorecard would be insufficient as a decision-making tool for UN in making decisions on whether or not to outsource because they are non-profit making.

In developing a contract performance scorecard, the main focus should be the definition of contract performance criteria. In the sporting world, a scorecard could be a card for recording the score of a game, match etc as in golf, or a card printed with names, positions etc of the players of competing teams. In the financial world, a scorecard is the profit and loss statement and the balance sheet, while in marketing, explains the performance of market shares. However, the scorecard referred to in the thesis is used as a standard for evaluating whether the service/function under consideration can be outsourced successfully.

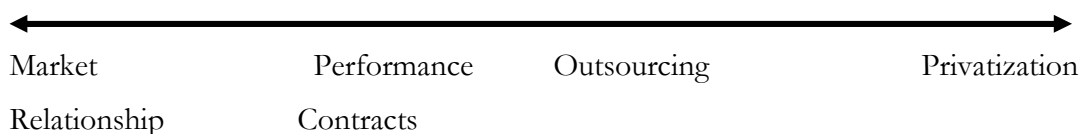
In most organizations, measuring systems amount to preparing a financial-performance scorecard at the expense of more qualitative measures. However, using a market based scorecard analysis, organizations are better prepared with two market-based scorecards that reflect performance and provide possible early warning signals (Kotler, 2003). A customer-performance scorecard records how well a company is doing year after year, while the second measure called the stakeholder-performance scorecard is used to track the satisfaction of various constituencies who have critical interests in, and impact on organizational performance such as staff members, service providers and host nations. Standards should be set for each group and top management should take action when one or more groups register increased level of dissatisfaction.

The UN in considering outsourcing should develop an outsourcing decision-making scorecard. In developing an outsourcing scorecard for the UN, the measuring systems should reflect the various constituencies that they have to deal with to efficiently and costs effectively execute the outsourcing contract. Therefore, the mission and

strategic direction of the provider must complement that of the UN to ensure that the relationship between the two groups is conducive to the outsourcing objectives.

According to BetterManagement.com, an information portal on the World Wide Web, before an organization can develop a scorecard; they must consider alterations to characteristics of a model that fits their particular circumstances. An outsourcing decision-making team would have to be constituted to manage any outsourcing engagement before an organization could successful carry out an outsourcing contract.

Another important aspect is the relationship between the UN and the service providers. This is viewed by both manufacturers and service providers as much more complex than a contracting relationship. According to Eger *et al.* (2002), when using the continuum in Figure 1, as the contractual relationship moves from a market relationship toward privatization, the complexity of the relationship increases. As a result, the importance of building a long-term mutual relationship becomes increasingly crucial. Thus, moving from a performance contract relationship to outsourcing requires that the focus of the relationship shifts from a set of contractual arrangements toward a mutual and trustful relationship that is continually managed by both parties. Successful outsourcing must be treated as much more than a specified contract and also as a relationship.



**Chart 13:** Contractual Relationship Continuum

**Source:** Eger *et al.* (2002), Page 51

Furthermore, a strong relationship is seen as providing further necessary opportunities for refining outsourced services in order to achieve the goals and objectives of a contract. Therefore, there should be a need for the UN and service providers to focus on relationship-building beyond the prescribed relationship in the scope of works. The reason is that relationship-building is a critical aspect in the

decision-making process, regardless of whether the working relationship is not fully dependable.

The UN in considering outsourcing must first identify its core competencies. By so doing, nonessential services that they are currently providing but that can be outsourced can be evaluated. However, relationship-building which is an essential aspect for an outsourcing contract must be established between the UN and service providers. Non-core services comprises of activities and tasks that an organizations would consider essential to be provided on a continual basis, but not necessarily needed to be provided by the organization itself. These types of services can be successfully outsourced because of their long-term focus and less substantial impact on the operation of the organization as a whole. With a long range outlook and no project-specific focus, organization will have the ability to begin the process of relationship-building that is required for successful outsourcing (Eger *et al*, 2002).

The scorecard will consist of questions that are intended to assist decision makers in determining if a potential for relationship-building exists. When this does not exist, the service under consideration should probably not be outsourced. If however, a potential for relationship-building does exist, the scorecard will assist decision makers in identifying specific issues that need to be addressed before outsourcing begins or that may prove to be barriers affecting the success of outsourcing the service. The scorecard that will be developed from at the end of the research is new but rather a modification of an existing model from private and public sector firms. The fundamental assumptions and postulates of the existing model used by private and public sector firms would not be altered. The scorecard developed for the UN and its peacekeeping operations from criteria identified in the research is based on the unique nature the UN and feed-back received from questionnaires and interviews.

In conclusion, based on the private sector experience, a management tool, called a scorecard, is the only means to ensure that the UN achieves desired outsourcing results. This scorecard should be designed and put in place early in the outsourcing decision-making process before a service is provided and should serve as a benchmark for objective measurement of performance for both providers and outsourcing organizations. As outlined earlier outsourcing criteria required for the scorecard are



then derived by evaluating common challenges and objective measures between the UN and the private sector. Thereafter through the use of these appropriate decision-making criteria an outsourcing scorecard could be developed. The scorecards developed in the thesis will serve as decision-making tool for the UN considering outsourcing for a specific service. The tool is designed to first provide an indication of the institutional setting of the organization. The institutional setting will include identification of whether the service under consideration for outsourcing is a core competency and has a long term focus.

## 2.8 SUMMARY

This review started by defining the functions and operations of the UN as a whole and its peacekeeping operations in particular. It went further to accentuate the need for privatisation of various aspect of the UN through outsourcing. It also compared outsourcing of services in the private and public sector and highlighted their advantages. It discussed how the advantages of outsourcing can be applied to the UN to make them more cost-effective and efficient. It also described the outsourcing decision-making process and addressed the initial step involved in an outsourcing process as well as highlighted reasons why the UN should outsource their non-core activities. The decision to outsource was also discussed. Outsourcing best practices of the private sector were compared with legal, economic, and political considerations that must be made when applying these lessons to the UN.

The functions of a service provider were also highlighted and the type that should be employed in an outsourcing engagement described. According to most of the work reviewed, strategic direction is seen as an important factor that influences the selection of providers for these outsourcing tasks. The review also identified other important objective criteria for assessing provider selection which included financial stability, reputation, physical equipment and capability, operational excellence, information technology, cost, quality, and compatibility. Transition to outsourcing was also examined, with special emphasis on the process of choosing a service provider once an organization has decided to outsource. Methods by which both private and public sector organizations conduct analysis and evaluation of existing outsourcing agreements were highlighted.

The process of establishing decision-making criteria is discussed together with the goals and objectives as well as the development of strategy and programmes are critically analysed since they determine criteria to be utilised in a decision-making process. Furthermore, methods by which both private and public sector organizations develop decision-making criteria and scorecard necessary for a successful outsourcing decision are highlighted. It is also established that having a goal that is carefully defined with measurable deliverables is essential, however, open mindedness, accuracy and thoroughness in the development of an outsourcing relationship will provide critical trust, necessary to assure the desired outcome, and this should be incorporated into the decision-making scorecard. Finally, the objective of the thesis is the employment of appropriate decision-making criteria derived from collected data in developing a decision-making scorecard which would serve as a decision-making tool for the UN in identifying services that can be outsourced successfully.