

A Framework for the Successful Outsourcing of Australian Corporate Real Estate

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Abstract

Outsourcing of corporate real estate has been growing significantly in Australia since the late 1990s. The main users of corporate real estate outsourcing services are large Australian companies, Federal and State governments and councils. The typical corporate real estate contract has a life of five years and deals with real estate assets of \$200million in value for the smaller outsourcing arrangements and most often for corporations and governments real estate assets subject to an outsourcing contract over the \$1billion mark in value. Despite the significant monetary value of corporate real estate outsourcing and the growing use of outsourcing to manage corporate real estate assets over the last decade, the academic literature and research in this field has been limited. The Australian academic literature in this field is virtually non existent. In particular, there has been little consideration and research as to what makes corporate real estate outsourcing successful. In discussion with industry practitioners, there was an industry need to research what makes corporate real estate outsourcing successful. Of particular interest to industry practitioners was the creation of a particular model or framework that could be used by practitioners of corporate real outsourcing to make decisions on how to implement an outsourcing contract. The research then has a key objective to develop an original outsourcing framework concerned with successful corporate real estate outsourcing that can be used by industry practitioners. This was the first research aim. The second research aim was to assess whether industry practitioners saw the framework as being useful for their day to day implementation of corporate real estate contracts.

In developing the framework, a variety of academic literature on outsourcing was consulted. The literature review was extensive and involved outsourcing literature from information systems, procurement, human resources and general outsourcing literature. The original framework created in the research was independently validated by reference to five intensive corporate real estate case studies and a focus group. The research findings were conclusive. The framework was consistent with the evidence from the five case studies for those case studies were outsourcing was successful. Put simply, for those cases where outsourcing was deemed to be successful, the research findings pointed to the framework being consistent and applicable and therefore validated. In addition, the focus group sessions confirmed that industry practitioners deemed the framework to have utility for them in use in their day to day outsourcing arrangements.

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Declaration by candidate

I, Pasquale Franzese declare that the PhD thesis entitled a 'A framework for the successful outsourcing of Australian corporate real estate' is no more than 100,000 words in length including quotes and exclusive of tables, figures, appendices, bibliography, references and footnotes. This thesis contains no material that has been submitted previously, in whole or in part, for the award of any academic degree or diploma. Except where otherwise indicated, this thesis is my own work.

A large black rectangular box redacting the signature of the candidate.

Signature:

Date: 20 December 2010

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Chapter 1 : An Overview of the Thesis

1.1 Introduction

This research investigated corporate real estate outsourcing and the success factors that enhance its implementation and management. Outsourcing of corporate real estate functions has been growing since the late 1990s and is now common practice within major Australian corporations and government. The academic literature on Australian corporate real estate outsourcing is virtually non-existent and the research has added to the literature on outsourcing of corporate real estate and outsourcing in general. The main driver for this research was the need to derive a workable and original success factors framework that is of use to practitioners of corporate real estate outsourcing. A success factors framework was derived from the research that outlined those factors and processes required for successful outsourcing of Australian corporate real estate functions. This original success factors framework derived from the research was independently validated by results obtained from five intensive case studies and a focus group evaluation of the success factors framework. The findings of the research were conclusive. The framework created as part of the research was consistent and applicable with those case studies where outsourcing was considered to be successful. Also as an industry practitioner for the last 12 years in the field of corporate real estate outsourcing, key industry participants were consulted and a large volume of confidential and contractual material was consulted to derive the analysis and findings of the research. The focus group component of the research confirmed the utility of the framework for practitioners of corporate real estate outsourcing.

This chapter outlines the background to the research, its significance, justification, limitations and the methodology proposed to deal with the research problems, aims and objectives. There is a brief summary on the contents of each chapter in the thesis.

1.2 Background to the research and its significance

According to Greaver (1999), organisations utilise their core competencies and competitive advantages to meet organisational objectives. Not all organisational activities are core functions or strategically important requiring these functions to be performed by an organisation. O'Malley (2001) considered that the property management activities of Australian major entities were not considered core business activities. While the relevant entities' real estate assets are likely to be significant and essential to business survival, the management of these property assets is not a core competency or activity according to O'Malley.

Real estate outsourcing for major Australian corporations and government is relatively new. Trevor (2005) considered that the major real estate outsourcing industry commenced in 1997 when the then Federal Government in house Australian Property Group's operations were transferred to an external provider. Basten (2003) noted that the take up of real estate outsourcing services during the period 1999 to 2003 was particularly strong in the banking, local government and retail sector. Walmond (1997) noted that the larger Australian companies and government have been predominantly the major users of corporate real estate outsourcing services. Evans (2007) estimated that the typical real estate outsourcing contract for major Australian companies is likely to range from \$2million at the lower end of real estate outsourcing contract value to \$15million to \$20million at the higher end of real estate outsourcing contract value including the actual costs of running, managing and operating an entity's real estate operations.

Selleck (2005) stated that corporate real estate outsourcing for major Australian organisations including government has been growing significantly since the late 1990s. He believed that this trend is expected to continue. Powell (2006) estimated in his 2005 study that approximately 60% of the 200 largest Australian companies had entered into some form of corporate real estate outsourcing arrangement with third party suppliers. Yelland (2006) estimated the value of corporate real estate outsourcing in Australia would grow by 15% per annum from 2006 over a 10 year period when analysed in terms of value of corporate real estate assets under management. There are many drivers increasing the demand for corporate real estate outsourcing. Corbett (2007) argued that the drivers for the growth in corporate real estate outsourcing were many with desire to reduce cost, gain access to technology and focus on more strategic issues seen in his study as key reasons why Australian companies outsource real estate functions.

Durmaz (2008) analysed the size and make up of real estate assets of the top 20 listed Australian companies that had outsourced their real estate operations. Referring to 2006 financial year balance sheet values, he found that the range of property asset values subject to an outsourcing contract ranged from \$150million real estate value at the lower end of value to over \$2billion of real estate asset value at the higher end for the top 20 Australian listed companies when ranked by their holdings in real estate property including leasehold.

1.3 Justification for the research

The proposed research is justified for the following reasons:

- Real estate outsourcing is a significant business and undertaking.
- The literature on Australian corporate real estate outsourcing is of a general nature and confined largely to non academic and non refereed publications. Much of the literature is presented on Australian corporate real estate outsourcing is resident in trade or similar publications that are not subject to scrutiny or an acceptable research methodology. Therefore, the academic literature on Australian corporate real estate outsourcing is evolving. This research addresses the gap in the academic literature on Australian corporate real estate outsourcing.
- Corporate real estate outsourcing in Australia is expected to continue to grow over the foreseeable future. Accordingly, the research findings are likely to be useful for other researchers in the field of corporate real estate outsourcing for many years to come.
- The framework and success factors derived from the research can be utilised by senior executives and other industry participants involved in corporate real estate outsourcing. There is currently no similar framework available for Australian corporate real estate outsourcing.
- The research is expected to add to the general body of knowledge in respect to outsourcing as a concept and in particular to what factors may aid in a successful outsourcing arrangement irrespective of the nature of the assets and/or arrangements being outsourced.

1.4 Contribution to Australian Real Estate Outsourcing

The thesis makes an original and substantial contribution to the body of knowledge in the field of corporate real estate outsourcing in three ways. Firstly, the research addressed the current gap in the academic literature for Australian corporate real estate outsourcing.

Secondly, the research derived a framework for the successful outsourcing of corporate real estate functions. This framework and its inherent success factors were tested against real estate outsourcing arrangements currently in operation. Its utility and function is expected to be relevant to current and future real estate outsourcing arrangements.

Thirdly, the research added to the general body of outsourcing knowledge beyond corporate real estate outsourcing. Trevor (2005) mentioned that there is much to learn

about outsourcing from the broad study of different outsourcing contract scenarios. The framework developed from the research has utility for outsourcing arrangements in general. A key research question and objective was to ascertain if the framework has utility for outsourcing practitioners. The five phase success factors framework developed from the research is a structured approach to the implementation of outsourcing contracts. Outsourcing is a concept related and applicable to many areas of business and government not just the provision of real estate services.

1.5 Research aims, objectives and approach

The research had two aims and objectives. The first aim was to develop an original and workable success factors framework that would assist industry practitioners to successfully outsource corporate real estate functions. The second aim was to investigate whether the framework was considered by industry participants to be a tool that could have industry acceptance and utility in the outsourcing of corporate real estate.

In meeting the two research aims and objectives the research adopted the following broad approach:

- A detailed review of the outsourcing literature not limited to corporate real estate outsourcing was conducted to ascertain what factors and processes the literature espoused as critical and necessary to successful outsourcing. These were for the purposes of the research, the outsourcing success factors derived from the literature. The literature consulted as part of the research was sourced from varying fields including outsourcing of information systems, human resources, logistics/purchasing and librarianship.
- Outsourcing success factors derived from the literature were compiled, analysed and structured to derive an original and workable outsourcing success factors framework.
- The validity of the derived framework was tested via five intensive major corporate real estate outsourcing case studies to derive a validated framework.
- A focus group session was held to establish whether industry practitioners deemed the validated framework relevant and useful.

The research does not employ testable hypotheses as research questions or issues to be addressed by the study. Instead the nature of the research questions pertaining to the study is concerned with addressing the aims and objectives of the study. In summary there are three broad research questions for the purposes of this study. The three broad research questions are:

- What does the literature pertaining to outsourcing identify as success factors for successfully implementing outsourcing contracts?
- Is the five phase success factors outsourcing framework developed as part of the research able to be validated when tested against five corporate real estate outsourcing case studies?
- Do practitioners of corporate real estate outsourcing consider the five phase success framework developed as part of the research to be useful in assisting practitioners of corporate real estate outsourcing?

1.6 Limitations of the scope of the research

The research is limited in the following respects:

Firstly, the research concerned itself with major Australian corporate real estate outsourcing arrangements. For the purposes of the research, the Australian based case study participant was required to hold property assets of at least \$200 million in value and also have contracted with an outside supplier to a real estate outsourcing contract worth at least \$2million in fees per annum. This limited the research to major Australian real estate outsourcing contracts.

Secondly, the research did not assess or explore the validity or otherwise of the outsourcing decision for the case study participant in question. Instead the focus of the research was to investigate the success or otherwise of the outsourcing arrangement for the case study participant with reference to the framework derived.

Thirdly, the framework did not establish or derive relative weightings of importance for each success factor in the framework derived from the research. The purpose of the framework was to derive a generalised structured and defined outline of those success factors and processes deemed important to the successful outsourcing of corporate real estate outsourcing.

Fourthly, the research investigated only corporate real estate outsourcing in isolation and did not attempt to investigate the effect of other outsourcing arrangements such as human resource and information systems outsourcing on the success or otherwise on corporate real estate outsourcing. Similarly no investigation was made of the effect of in house managed property services where applicable to the outsourcing arrangement.

Fifthly, the findings of the research are limited by the limited sample of the case study participants and generalisation to other industries or circumstances involving other real estate outsourcing arrangements are in theory. The research is also limited by the inherent limitations of the research methodology employed.

Lastly, there are likely to be a myriad of factors that influence the success of corporate real estate outsourcing that go beyond the scope of the research. This research has focused on deriving a framework with structured and defined success factors. Other success factors and processes beyond those outlined in the success factors framework derived from the research that may affect outsourcing performance have been ignored.

1.7 Definitions of major terms used in the thesis

For the purposes of this research the key terms are outsourcing of corporate real estate functions, success of outsourcing, outsourcing of corporate real estate functions and outsourcing supplier. Chapter 2 defines in detail the terms outsourcing and success of outsourcing as derived from the literature and applicable to the research. The other key terms are defined in general terms as follows:

Outsourcing of Corporate Real Estate Functions

Mol (2007) defined outsourcing as an arrangement where previously conducted inhouse operations or services have been transferred to a third party provider. These services may still be provided within the premises of the client notwithstanding the transfer of control. Opie (1998) stressed that transfer of control and accountability are key traits of an outsourcing arrangement. Similarly, Bellin (1995) restricted outsourcing to those arrangements that had a formal contractual arrangement enforceable in a court of law. Linder (2004) considered a service to be outsourced if it was repeated or was otherwise ongoing. According to her, this excluded one off projects or joint ventures that one party may have with another. Assets, staff and/or data may be transferred as part of the outsourcing arrangement (Dominguez 2006).

Taking into account the above definition or traits of outsourcing, corporate real estate outsourcing is defined for the purposes of the research to consist of:

- Those corporate real estate functions previously conducted inhouse but now transferred to a third party supplier.
- Those corporate real estate functions that is repeated or ongoing whether provided by the supplier at the premises of the client or at the premises of the supplier.
- Those arrangements that are covered by a specific outsourcing arrangement or contract and the arrangement or contract is legally enforceable in a court of law.

Corporate Real Estate Functions

Corporate real estate functions are those functions according to Yelland (2006) that cover any operation or function related to the management, maintenance, acquisition

or disposal of buildings and/or land owned or leased by the corporation. The term corporate real estate functions adopted in the research covers a broad range of services and operations that pertain to the premises of the corporation. For the purposes of this study, general facilities management, sales and leasing negotiations, specialised maintenance, routine property lifecycle management, cleaning services, general repairs and maintenance to fixtures and fittings, valuation services and property management are all captured by the term corporate real estate functions. Walmond (2000) considered in the Australian context that the term corporate real estate functions referred to the property operations of major companies and/or government.

Outsourcing Supplier

For the purposes of the research, supplier (also at times referred to as 'vendor' in the literature) is a term used for those entities that provide corporate real estate outsourcing services as their key business (Pitman 2002). In addition, the outsourcing supplier for the purpose of the research was taken to be the contracting party on the outsourcing arrangement notwithstanding that there may be other sub contract arrangements forming part of the transaction. Durmaz (2008) confirmed that corporate real estate outsourcing arrangements typically have a head supplier of real estate services. The definition of outsourcing supplier or vendor in the research assumed a key supplier providing and/or being accountable for provision of real estate services under the outsourcing arrangement.

Outsourcing Arrangement

An outsourcing arrangement also referred to in the research as an outsourcing contract or outsourcing agreement refers to specific corporate real estate functions being transferred from an organisation to a supplier subject to terms and conditions detailed in a formal and binding written legal agreement entered into between the organisation and supplier. Outsourcing arrangements may include ancillary or supporting agreements arranged by the supplier and contracted between the principal supplier of outsourcing services and other parties.

1.8 Ethical and Privacy Issues Relating to the Research

Privacy matters were also considered as part of the research. A significant part of the data collection and analysis involved examination of commercially sensitive documents and materials pertaining to some of the case study outsourcing arrangements. While the research was assisted by the availability of such information, a decision was made

as to the most appropriate manner to protect the privacy of the interviewee and information provided as part of the research. Although a small number of the case study and focus group participants consented to be named in this thesis, others formally requested that they not be named. Accordingly, the decision was taken for reasons of privacy and in keeping with the wishes of those participants who requested not to be named, that none of the case study or focus group participants or interviewees have been named directly. All references to the case study participants including interviewees have been made by a number or unique reference as appropriate. Similarly, the six focus group participants have been also been individually identified by a number reference whenever referred to in this thesis. The information collected in the data collection and analysis part of the research is described in general terms in the thesis without naming of the parties in the documentation or otherwise disclosing information in the thesis where inferences as to identity can be directly made from the information provided in this thesis.

Privacy and confidentiality issues were outlined formally to the university ethics approval body. The Faculty of Business and Law Human Research Ethics Committee approved the proposed research from the point of view of ethical policy and on the conditions referred to above. The approval reference is BHREC 2002/3.

1.9 Organisation of the Thesis

Chapter 1 presents an introduction to the thesis and outlines a synopsis of the scope of the thesis, key definitions, limitations and research aims and objectives.

Chapter 2 reviews the literature in respect to outsourcing.

Chapter 3 presents the outsourcing success factors framework.

Chapter 4 outlines the research objectives, design and research methodology.

Chapter 5 outlines the data collected, analysed and the findings from the five extensive case studies (phases 1 to 2 of the outsourcing success factors framework presented).

Chapter 6 outlines the data collected, analysed and the findings from the five extensive case studies (phases 3 to 5 of the outsourcing success factors framework presented). A review of the focus group deliberations is also presented.

Chapter 7 presents the conclusions of the research and suggests areas for future research.

The thesis has a reference and appendices section following chapter 7. The thesis is organised to ensure that minimal use has been made of appendices. The framework and all case study data collected and analysed is included within the body of the thesis. While this adds to the length of the body of the thesis, it also assists in readability and continuity of the thesis by not having the supporting case study data and framework included as appendices.

1.10 Chapter review and conclusion

This chapter presented the background to the research including the research's significance and justification. A synopsis of the broad research aims and objectives including limitations of scope of research were also presented. Key terms were defined. Some ethical and privacy issues were discussed. A brief overview of the organisation of the thesis was outlined.

The next chapter is the literature review chapter and discusses the nature of successful outsourcing with a focus on the tasks, activities and requirements for successful outsourcing. The theoretical basis for successful outsourcing is also discussed in detail.

Chapter 2 : Literature Review and Derivation of the Outsourcing Success Factors Framework

2.1 Introduction

This chapter reviews and synthesises the broader outsourcing literature about the factors, guidelines, tasks, processes and approaches that work towards the attainment of successful outsourcing outcomes. Australian corporate real estate outsourcing research is evolving and therefore the academic literature is limited. Similarly the academic literature pertaining to outsourcing of corporate real estate outside of Australia was also deemed limited or otherwise not relevant to the objectives of the study. Accordingly, the literature review focused by necessity on outsourcing relevant to information systems, human resource management, logistics, librarianship, supply chain management and other industries and sectors where outsourcing has had a long track record and there was a variety of suitable academic literature, especially in respect to success factors related to outsourcing. Of particular interest to the study was the academic literature that pertained to the requirements for successful outsourcing arrangements.

The literature was reviewed to find common themes, guidelines, processes, success factors and research findings that were considered necessary in providing for successful outsourcing outcomes. Where there were discrepancies or differing viewpoints in the literature as to what constituted a success factor or otherwise issues still to be resolved in determining the importance or effect of that particular success factor for successful outsourcing, this too was outlined as part of the literature review.

The aim and intention of the literature review was to identify those success factors, processes and guidelines that assisted or contributed to successful outsourcing. Taking these general success factors and processes established from the literature review into account the principle aim of the research was to develop a success factors framework. The success factors framework outlined in chapter 3 was derived from the literature review.

2.2 Gaps and limitations in the Australian corporate real estate outsourcing literature

The academic literature in respect to Australian corporate real estate outsourcing is limited. Much of the literature on Australian corporate real estate outsourcing has been restricted to real estate trade and similar general publications not subject to

academic scrutiny or otherwise utilising acceptable research methodology in reaching conclusions as to what constitutes successful real estate outsourcing. While this literature has been used in the research for purposes of ascertaining the size, scope and make up of Australian corporate real estate outsourcing and commenting in general terms on the Australian corporate real estate outsourcing industry, the broader academic literature on outsourcing was consulted for the purposes of creating the success factors framework outlined in chapter 3. The outsourcing literature consulted for the purposes of the study related to outsourcing in the fields of information systems, human resource, logistics, librarianship, supply management and general business process outsourcing. Where appropriate, reference has been made to literature devoted to outsourcing of corporate real estate in the North American or British/European context. However, as with the Australian experience much of the North American or British/European literature is not of academic quality or otherwise not relevant to the study.

The academic and general literature on outsourcing is extensive. A search of the available literature indicated that over the last 15 years there are several thousand journal papers, some hundred and fifty books and some five hundred conference papers that cover outsourcing as the key topic or as a significant part of the subject matter. For the study, the challenge was to identify relevant literature of a quality and standing that focused on outsourcing success. Of particular concern was defining terms outsourcing and outsourcing success in addition to understanding and interpreting what the literature review established as the requirements for outsourcing success.

2.3 Defining outsourcing as it applies to Australian corporate real estate

This study is concerned with outsourcing and in particular outsourcing of Australian corporate real estate functions. Outsourcing for the purposes of the study was defined to exist if the arrangement met a number of conditions. Lendrum (2000), Johnson (1997) and Rothery and Robertson (1996) considered an organisational service or function as being outsourced if certain key requirements for outsourcing were in place. They viewed that for an outsourcing arrangement to exist, the arrangement needed to meet certain traits such as:

- Transfer of previously inhouse services or functions to an external provider or supplier
- A contractual agreement between the organisation and supplier that is legally enforceable with a defined term and monetary amount

- A specified scope of services and functions for the supplier or provider to perform under the contractual arrangement
- A repetition of the services and functions not just one off thereby differing from a joint venture or shared project arrangement where the arrangement is not deemed to be continuing or ongoing
- A transfer in whole or in part of data, files, staff and assets as part of the outsourcing arrangement
- Typically a head supplier or provider of the service as main supplier but may sub contract to other parties as part of the delivery of the outsourcing arrangement
- Typically but not exclusively the functions and services to be outsourced are operational more so than strategic from an organisational viewpoint.
- Typically control and accountability for the performance of delivery of the outsourced function or service is with the supplier or provider of the service.

The literature was consistent with the approach discussed by Lendrum, Johnson and Rothery and Robertson. A similar list of traits has been offered by White and James (1996), Lei (2007) and Mol (2007) as evidence as to what constitutes an outsourcing arrangement. Pitman (2002) mentioned that in a corporate real estate outsourcing arrangement, previous inhouse functions were transferred to an external supplier under a specific legal contract or arrangement. Selleck (2005) discussed the concept of a head contractor in corporate real estate outsourcing notwithstanding that the head contractor may utilise the services of other contractors to deliver the service or function. Mockler (2000) stressed the importance of providing ongoing services and operations in an outsourcing arrangement. In line with the work of Minoli (1995) and Willcocks and Fitzgerald (1996) there was a consistent view in the literature that only operational functions should be outsourced with strategic functions to be performed inhouse. Williams (1998) stated that strategic organisational functions were more likely to be core to the business direction and there was a risk in outsourcing the management of strategic functions to an outsider supplier. Greaver (1999) identified that the distinction between what is an operational versus strategic function is not always clear cut. Quinn and Hilmer (1994) considered operational functions to be less inclined to be core competencies of the organisation and more to be those functions that are routine, repetitive and generally able to be performed by external parties either more effectively or for other reasons suited to transferring control and accountability to an outside supplier. Pitman (2002) was of the same view when he identified the main functions outsourced in a corporate real estate outsourcing arrangement to be largely operational in that they are routine and non core from the viewpoint of an organisation. His list of likely operational real estate services or functions suitable for outsourcing consisted of:

- Repairs and maintenance either day to day maintenance of either a routine nature or planned programmed maintenance
- Sales and leasing of properties owned by the organisation
- Facilities management activities such as cleaning, waste removal, communication services, lighting
- Location of new sites and properties for the organisation to conduct its business
- Security services both ensuring personal security of staff and organisational assets
- Property management activities involving acting as agent for the organisation in the negotiation of sales, leasing and purchase of real estate
- Accounting and administration services for the supplier to provide information to organisation to meet its statutory duties to the appropriate statutory authorities
- Valuation and property advisory services either on as needs basis or on programmed basis
- Reporting of property costs and expenses on a timely basis
- Maintenance by the supplier of a central help desk to monitor and deal with specific property inquiries and requests for assistance from the organisation's staff

Lacity (2009) identified that outsourcing arrangements required some transfer of assets, staff and information. Yelland (2006) reviewed a variety of outsourcing arrangements and found that the majority involved a complete transfer of staff and information from the organisation to the supplier. It is possible that selective outsourcing is practised. O'Malley (2001) described selective outsourcing as where the organisation outsources a segment of possible functions. He gave the example that an organisation could outsource cleaning and maintenance in a real estate outsourcing contract but maintain real estate procurement as an inhouse function. For the most part, it is likely that major corporate real estate outsourcing is likely to be a total outsourcing approach as discussed by Imrie (2000). Imrie envisaged that the larger the outsourcing contract in monetary terms the more functions would be outsourced. He gave the reasons that economies of scale and other efficiencies would make it more conducive to outsource a broader range of functions in major outsourcing contracts. Although Imrie cautioned that success in outsourcing contracts could be compromised by the supplier's lack of expertise in some of the functions outsourced in a total outsourcing contract.

2.4 Defining success in an outsourcing arrangement

Kendrich (2009) and Mol (2007) believed that outsourcing was considered successful from an organisational viewpoint if the stated objectives, drivers and aims of outsourcing have been met by the outsourcing arrangement. Tunstall (2007) and Duening (2005) cautioned that outsourcing success needed to be broadly assessed in meeting organisational strategic objectives and not necessarily solely the specific objectives set for outsourcing certain organisational inhouse functions alone. This would highlight a potential conflict between broader organisational objectives and objectives limited to the proposed outsourcing arrangement. Linder (2004) expanded on this when she stated that if there is a conflict between the specific outsourcing goals and the broader organisational goals the meeting of broader organisational goals must prevail in determining if outsourcing is to be considered successful as to outcome. Defining achievement of success from an outsourcing arrangement was generally consistent throughout the literature and broadly consisted of:

- Validating the drivers initially set from the outset for outsourcing were valid (Dominguez 2006 ; Gay 2000)
- Ensuring the broader organisational goals were not compromised by the outsourcing arrangement (Tunstall 2007 ; Lacity 2008 ; Quinn and Hilmer 1994)
- Meeting the aims and objectives set for the outsourcing arrangement (Booth 2010 ; de Looff 1998)

It was established from the literature that outsourcing success requires aims, objectives and drivers for outsourcing to be established. The main aims, objectives and drivers often given in the literature for the desire to outsource are:

- Cost reduction or savings when compared to inhouse cost of providing the same services (Burkholder 2006 ; Hirschheim et al. 2009)
- Cost of performing inhouse prohibitive (Lendrum 2000 ; Rothery and Robertson 1995)
- Quality of services delivery at higher standard then can be performed inhouse (Corbett 2004)
- Desire to clear out non performing staff (Pitman 2000)
- Access to competencies the organisation does not have (Rothery and Robertson 1996)
- Function proposed to be outsourced is non core to business (Rogers 2006 ; Heywood 2001)
- Scale of business either current or projected warrants outsourcing of inhouse functions (Martin 2008)
- Access to technology (Lacity and Hirschheim 1993 ; Corbett 2004)
- Conservation of capital (Trevor 2005)

- Changes in legal environment preventing function being kept or managed inhouse (Bergsman 1995 ; Vagadia 2007)
- Emergence of qualified suppliers able to perform the functions previously completed in house more effectively and efficiently (Mockler 2000)

Pitman (2002) considered that some reasons for outsourcing corporate real estate centred on cost reduction, access to technology and a view in many organisations that corporate real estate functions are deemed to be operational or non strategic and therefore should be outsourced. However the reasons for outsourcing, including drivers and aims are many and varied. Dominguez (2006) was of the view that organisations were likely to have more than one reason or driver for making the decision to outsource. Johnson (1997) attempted to categorise the drivers of outsourcing into two broad categories being cost drivers and competency drivers. Ideally he considered that drivers from each category should be relevant and not just one of the categories in driving the outsourcing decision to ensure the drivers for outsourcing were appropriate. Jenster (2005) also stated that drivers for outsourcing are many and varied and his study concluded that while organisations express their desire to outsource in simple terms or give one objective such as cost reduction as the reason for outsourcing, the truth is that organisations have many reasons for proceeding with outsourcing and it is simplistic to look for one reason only. Marcella (1995) considered that often, the requirement to outsource is made for reasons that are set by the legislative, environmental or competitive environment forced upon the organisation and therefore the choice has already been made for the organisation. He further outlined that regardless of the drivers, aims or realities pertaining to the decision to outsource the common theme in all outsourcing arrangements is the presence of risk not only on the success of the outsourcing arrangement but to the broader organisation. Accordingly consideration of outsourcing and risk mitigation strategies are an important part of managing the outsourcing process.

2.5 Risks in outsourcing arrangements that may inhibit success

McIvor (2005), Minoli (1995) and Bragg (2006) considered that risk assessment was required in the initial phase of the outsourcing process so that an informed assessment could be made as to whether outsourcing presented too great a financial risk to continue. Yourdon (2005) viewed outsourcing arrangements as presenting financial and operational risks to the organisation. Operational risks involve additional costs due to wastage, process inefficiencies and the organisation operating in an unprofitable manner as a result of a poorly implemented outsourcing contract. Durmaz (2008) highlighted corporate real estate asset values of up to \$2billion for some major Australian corporations that outsourced their real estate

operations. The possibility for wastage, process inefficiencies and unprofitable dealings could therefore be a significant cost for poorly implemented corporate real estate outsourcing contracts. The lack of suitable literature in the field of corporate real estate outsourcing to address risks such as wastage, process inefficiencies and unprofitable dealings has required that reference be made to the outsourcing related literature of other disciplines to address the corporate real estate 'literature gap'.

Risk mitigation strategies pertaining to information system and human resource outsourcing are well documented in the literature. Martin (2008) and Pollit (2005) considered for human resource outsourcing that risk mitigation strategies would counter risks and enhance the chance of success in an outsourcing arrangement. The different types of outsourcing risks needed to be considered and dealt with in an outsourcing arrangement as identified in the literature are:

Vendor risks refer to the vendor not delivering on the terms in the outsourcing contract and causing loss to the organisation whether financial or reputational (Imrie 2000)

Reputational risk refers to the organisation's reputation suffering due to an outsourcing arrangement providing sub optimal results and damaging the public perception of the organisation (Barrat and Whitehead 2004 ; Yourdon 2005)

Operational risk refers to the outsourced operations being carried out in a manner that cause the organisation to conduct its business inefficiently (Gates 1993)

Transfer risk refers to the inability of the organisation to transfer outsourced functions back inhouse in the event of the outsourcing arrangement not meeting the desired outcome (Klepper 1998)

Financial risk refers to risks that cause financial loss to the organisation as a result of the outsourcing arrangement (McIvor 2005)

Latent cost risk refers to the outsourced operations presenting to the organisation additional costs not foreseen at the time that the outsourcing contract was entered into (Walmond 1997)

Business risks refer to the risks from changing business environment that impact adversely on the outsourcing arrangement and prevent the broader organisational aims and objectives being met (Duening 2005)

It would follow that adopting risk mitigation strategies and thereby minimise outsourcing risk would enhance the outcome of the outsourcing arrangement. Minoli (1995) believed that risk cannot be entirely avoided in an outsourcing arrangement. He thought that many of the risk factors involved in outsourcing arrangements are outside of the control of the organisation or the supplier and this would entail that any

risk mitigation strategy cannot totally avoid risk. O'Malley (2001) was of the view that risk mitigation strategies were a critical component of ensuring success in an outsourcing arrangement notwithstanding that the risk cannot be avoided entirely from any outsourcing arrangement.

Lendrum (2000) highlighted the need for a phased and structured approach to minimise the risk of not achieving outsourcing success. This was supported by Greaver (1999) who also argued for a phased approach to outsourcing as mitigating risk while enhancing the chance for success of the outsourcing arrangement. Gartner (2002) discussed that a phased approach to outsourcing is consistent with consideration of outsourcing to have its own lifecycle and at each stage of the lifecycle risk will need to be dealt with.

2.6 Implementing an outsourcing arrangement – a phased approach is necessary for outsourcing success

The literature has identified a number of reasons why outsourcing success requires a process-driven and phased approach. Gartner (2002) outlined the reasons below as necessary for a process driven or phased approach to outsourcing and contributing to success of the outsourcing arrangement:

- Providing a systemic approach and a 'how to do it' process for practitioners involved in outsourcing
- Impose disciplines on management and other parties involved in the outsourcing process (each phase has its own metrics and key tasks)
- Consistency of process, a phased approach ensures that there is a consistent approach to enacting outsourcing success
- Understanding that you cannot change the phases only the efficiency and effectiveness of how the phases in the outsourcing arrangement are implemented

The point of consistency of process is important to this study as the success factors developed for purposes of the framework assumes that they remain constant throughout the outsourcing arrangement.

Lacity (2009), Gartner (2007) and Willcocks (2006) argued for outsourcing arrangements that were developed adopting a structured process with defined phases and processes. Gartner identified a number of phases that were instrumental to outsourcing success. It also considered that while the names given to the distinct phases of outsourcing may change, the underlying nature of the phase would not alter. Consistent throughout the literature was the identification of five distinct phases in the

outsourcing process. Lendrum (2000), Department of Treasury and Finance (1997) and Rothery and Robertson (1996) identified the outsourcing process to consist of broadly five phases. The name given to each phase of outsourcing adopted in the research were generalised from the literature. Therefore the name may differ between literature sources from other names adopted in the literature for the same phase or stage in the outsourcing process. For example, Walmond (1997) described phase 1 of his outsourcing model as the preliminary phase of outsourcing notwithstanding that the processes pertaining to that stage are consistent with Gartner (2007) who defined phase 1 as the preview and analysis stage. Some have provided subcategories to the 5 phase model that effectively extends to a 7 phase outsourcing model that splits one or more of the phases of the 5 phase model into subcategories. For example, Pitman (2000) considered the concept of a 7 phased outsourcing lifecycle. He identified the outsourcing life cycle to consist of and each phase to be in order as outlined below:

- Strategic assessment
- Needs analysis
- Vendor assessment
- Negotiation and contract management
- Project initiation and transition
- Relationship management
- Continuance , modification or exit strategies

The first two items of the Pitman model are typically merged into the first phase in the work of others (Gartner 2007 ; Walmond 1997) and similarly items 3 and 4 are merged into the second phase where a five phased outsourcing model is used. Notwithstanding that there may be slight differences in names given to these phases and whether the phases are further divided into sub categories, the literature is consistent in the general make up of the phases required to implement a successful outsourcing arrangement. Consistent with the literature (Gartner 2002 ; Greaver 1999 ; Johnson 1997), the research has adopted similar generalised titles to reflect each phase of the outsourcing process. The five broad phases involved in outsourcing identified from the literature are:

- Phase 1: Setting objectives, analysis and review of outsourcing
- Phase 2: Tender, negotiation and supplier selection phase
- Phase 3 : Transition phase (moving from inhouse to outsourcing)
- Phase 4 : Management of the outsourcing arrangement phase
- Phase 5 : Contract expiry (termination or renegotiation of the outsourcing arrangement)

Notwithstanding the generalised nature of each phase, Greaver (1999) considered the outsourcing phases derived in his study and similarly named as above to be distinct phases. He mentioned that each phase would have its own distinct success factors, inhibitors and linkages to other phases. Each phase of the outsourcing process must be completed prior to the commencement of a subsequent phase of the outsourcing process (Gartner 2002 ; Reeves 2002 ; Powell 2006). Some phases have common themes, steps, requirements and processes such as communication and risk minimisation strategies notwithstanding that the emphasis is somewhat different in each phase (Powell 2006). Powell considered that other factors such as senior management commitment are likely to be consistent throughout each phase. Although on the surface repetitive, the same factor needs to be outlined separately for each phase. Therefore there are common themes and factors common to each phase according to Powell.

From the literature, the study has identified a five phase outsourcing approach. The theoretical basis for this approach is consistent with work of Dominguez (2006) who identified that successful outsourcing requires a structured approach comprising of distinct phases in the outsourcing life cycle. At the conclusion of each phase according to Dominguez, the deliverables of that phase are used as required inputs into the subsequent phase(s).

Yelland (2006) highlighted that although the phases are distinct in their individual success factors, activities and tasks, the latter phases in the outsourcing process being phases four and five utilise some of the analysis techniques of the earlier three phases. According to Yelland, the phases whilst involving distinct steps are also closely related to each other.

The outsourcing five phase approach has a time frame for the total outsourcing life cycle that commences at the pre outsourcing analysis phase and concludes at the contract expiry phase. The five phase approach is proposed by the literature to be utilised as a total concept and not focus on any one phase in isolation (Walmond 1997 ; Pitman 2002). To maximise the effectiveness of outsourcing the five phased approach is required to be completed in its entirety in keeping with the actual stage of the outsourcing life cycle (Basten 2003). The 5 phase approach to outsourcing is considered to be applicable for the term of the contractual arrangement (Greaver 1999). The five phases are to be conducted sequentially and should be conducted in order (Pitman 2002 ; Walmond 1997).

2.7 The five phase approach to outsourcing derived from the literature

The five phases of outsourcing were utilised for the study to develop the outsourcing success factors framework. A general description of each phase of the outsourcing process as derived from the literature is outlined in this section. Within each phase are relevant processes, success factors, guiding principles and interrelationships between phases that are relevant for each phase. This section highlights for each of the five phases:

- Success factors pertinent for that phase
- Relationship between the five phases
- Inhibitors and risk factors inherent in each phase that may adversely impact on outsourcing success
- Deliverables required from that phase before proceeding to the next phase
- Consequences on outsourcing success if a particular phase is not completed in the correct manner

2.7.1 Phase 1: Setting Objectives, Analysis and Review of Outsourcing

Gartner (2002) and Basten (2003) considered that the initial phase being the commencement of the outsourcing process is the most important phase of the outsourcing process. According to Gartner, it is the first opportunity to assess risks of any outsourcing decision and their effect on outsourcing success. Phase 1 is clearly concerned with risk assessment (Minoli 1995). Both general organisational risks and specific risks from the outsourcing arrangement including opportunities are considered according to Minoli at the initial phase. Essentially phase 1 is concerned with the analysis of risks of outsourcing versus the benefits of outsourcing (Minoli 1995 ; Jenster 2005). The motives and objectives for outsourcing are also established during this first phase according to Brown (2005). Drake Consulting (1999) similarly considered Phase 1 of the outsourcing process required an investigation of why outsource in the first place. In evaluating outsourcing decisions, Drake Consulting believed management needed to consider organisational objectives, possible risks, possible rewards, motives and objectives to outsource.

The literature is consistent that Phase 1 is principally concerned with risk assessment of outsourcing both in conceptual terms and how it will affect the broader organisation (Klepper and Jones 1998 ; Gartner 2002). Lendrum (2000) stated that the main objective during this early phase of outsourcing was to fully assess the pros and cons of outsourcing to the organisation as a whole and not just isolated to the department or

function proposed to be outsourced. One risk is that the organisation has misjudged the financial benefits from outsourcing. O'Looney (1998) and Walmond (1997) mentioned that base line cost analysis and projected financial benefits needs to be established early in the outsourcing process. Without a baseline cost analysis Walmond contended that an organisation could not validly compare the projected cost benefits of the outsourcing arrangement against the costs of the previous in house arrangement. Linder (2004) believed organisational strengths and weaknesses in respect to the services proposed to be outsourced need to be identified during the initial phase of the outsourcing process. She added that outsourcing as a concept would need to be evaluated against perceived organisational strengths and weaknesses to ascertain if the organisation could deal with the challenges outsourcing involves. While risk assessment is a common theme during all phases, each phase has particular risk analysis considerations. For example, during the initial phase the consideration of supplier risk and part of this assessment the availability of suitable suppliers to perform the services is important (Duening 2005 ; Lendrum 2000). Lendrum's main concern is that the supplier can meet the obligations of the contract over the defined term of the outsourcing arrangement. Supplier risk according to Lendrum is the risk that the supplier has not the resources or knowhow to perform the requirements of the outsourcing contract to a satisfactory level. Therefore, Phase 1 is a critical phase of the outsourcing process. Failure to complete phase 1 properly can result in poor decisions being made that will eventually cost the organisation significant resources, time, cost and trouble.

Risk assessment and risk mitigation using a mixture of qualitative and quantitative techniques can be of use to lessen the risks of outsourcing. Lacity and Willcocks (1998) and Piachaud (2004) agreed that phase 1 activities will involve a mixture of qualitative and quantitative analysis as a means of mitigating risk. There is some discrepancy in the literature as to which particular approach is best for evaluating the decision to outsource (Pitman 2000). Walmond (1997) preferred more qualitative approaches versus Basten (2003) who preferred quantitative evaluation approaches to supplement any qualitative assessments derived. Duening (2005), Jenster (2005) and McIvor (2005) argued for a variety of analysis techniques to be adopted in deciding the merits or otherwise of outsourcing. It would appear from the literature that both quantitative and qualitative techniques would need to be considered in the proposed real estate outsourcing model. The investigation would need to consider available evaluation and risk assessment techniques during phase 1.

In general terms, the literature identified that phase 1 would require certain key activities to be undertaken such as:

- Defining the key objectives and drivers for outsourcing corporate real estate functions. (Pitman 2000)
- Obtaining management approval and support for outsourcing. (Greaver 1999)
- Preparing a business plan assessing the pros and cons of outsourcing versus maintenance of inhouse provision of services. (Linder 2004)
- Determining a suitable cost baseline for existing inhouse services. (Marcella 1995)
- Obtaining key stakeholder 'buy in' including external affected parties and support. (Rothery and Robertson 1996)
- Developing a suitable communication strategy to be used throughout the tender process. (Walmond 1997)
- Assessing categories and quantum of likely risk (Minoli 1995)

Phase 1 of the outsourcing process is the initial and most critical phase of the outsourcing process. If this phase is not properly implemented then later phases are likely to be compromised. The three consequences according to Selleck (2005) of poorly completing the initial phase of the outsourcing process are:

- Decision to outsource may subsequently be made for reasons that are unjustified
- The operations outsourced may in fact prove inappropriate for outsourcing
- Risk issues and mitigation strategies are not given proper consideration

The literature has clearly identified those principles for phase 1 that need to be completed as part of a successful outsourcing arrangement. These are presented in this section in the form of broad principles with an explanation of each principle. This approach is adopted for each of the five phases. For phase 1, the key success factors and guidelines from the literature pertaining to phase 1 are presented in detail below.

2.7.1.1 Outsource organisational operational not strategic functions

A tenet of successful outsourcing is that strategic functions and not operational functions should be outsourced (Lacity 1993 ; Quinn and Hilmer 1994). There is a risk to the organisation of outsourcing strategic functions according to Lacity. Because strategic functions concern setting the business direction, broad aims and objectives of the organisation, outsourcing strategic functions may create results not consistent with the needs, wants and expectations of the entity (Brown 2005). Operational functions assist in meeting the strategic direction of the entity as operational functions are not concerned with setting the organisational strategic or business direction (Reeves 2002). Pitman (2000) defined operational functions as the 'doing functions' of an organisation's business and the aim of operational functions do not have the main aim

as setting business direction and strategy but rather implement the organisation's strategic direction. A key focus of operational functions is therefore to implement the strategic strategy according to Pitman. However there is often a blur between what is considered a strategic function as to what is considered an operational function in an entity (Quinn and Hilmer 1994). Walmond (2000) gave as an example that the sale of real estate may be a key operational function in a major corporate real estate outsourcing contract yet for a bank looking at rationalising its branch network by selling off its poorer performing retail branches, the sale of property function may be considered strategic to the bank as it can adversely impact on customer behaviour. Walmond states that in this instance the bank would view the result in terms of public perception and its standing in the community. Accordingly, even though the sale function is operational it is so closely allied to its strategic direction that outsourcing of the sale function is not justified in terms of meeting its overall organisational objectives (refer to Selleck 2005 ; Trevor 2005 for similar examples).

Consideration of what is considered a strategic function and what is considered operational function is a task required to be performed by management in this early phase of the outsourcing process (Brudenall 2005). It is not always a clear cut process and a carefully considered analysis is required. This will entail consideration of risk issues, materiality and whether the organisation can outsource this function without losing control of its business direction setting and monitoring (Greaver 1999). The ability to bring the outsourced function back in house is not always possible and therefore according to Greaver management must carefully consider this decision.

White and James (1996) assessed that differences of opinion will exist within an organisation as to what constitutes a strategic and therefore 'important' function versus an operational function and therefore a 'lesser' function that can be outsourced. He pointed to agendas existing within organisations that may prevent functions which should be outsourced from being outsourced because outsourcing of the function does not suit a particular segment of the business. An example of this selective view of which functions should be outsourced was reported in Selleck (2005) where he highlighted an example of corporate real estate employees retaining the management of 'big ticket' real estate transactions on the basis of the kudos and industry standing that involvement with these transactions yet giving the outsource supplier management of lesser value properties that gave the corporate real estate employees purportedly less kudos. Rothery and Robertson (1996) argued for senior management deliberation to resolve such conflicts. If not, they believed there would be a tendency to outsource only those functions that the in house employees thought were of lesser standing. The ability of senior management to convince the broader organisational team of which functions should be outsourced will be enhanced if the business case has a proper

method of analysis of the risks, materiality, expertise and general organisational benefit of outsourcing business functions (Sparrow 2003).

The literature has suggested the use of a matrix, graphical analysis or similar tools to assist in assessing an organisation as to whether a function is strategic or operational. Durmaz (2008) and Selleck (2005) derived a strategic function selection matrix that considered as outsourcing candidates all functions that were not core to the business and were not necessarily best performed by the organisation. The functions chosen were then assessed as to their impact on organisation profit generation and organisation operating efficiency and effectiveness by not having these functions performed inhouse. They argued that only those functions that scored low to moderate on the matrix and therefore the functions assumed to not materially affect profit or operating efficiency should be considered for outsourcing. Yet others have considered such approaches in isolation as difficult because ultimately decisions on which functions are to be outsourced require some form of subjective decision making (Lacity 1993 ; Beulen et al. 2006). The literature was consistent that determining what is a strategic or operational function within an organisation is not always clear cut (Selleck 2005).

2.7.1.2 Setting clear business objectives and drivers for outsourcing

Clear business objectives and understanding of the drivers favouring outsourcing need to be established at the outset (Dominguez 2006 ; Hodge 1996). Lendrum (2000) believed that management needed to consider the business objectives of all stakeholders in making and implementing outsourcing decisions. Failure to consider the needs of all stakeholders may result in sub optimal choices or the implementation of an outsourcing strategy that creates problems for the organisation in the future according to Lendrum. A decision to proceed to outsourcing may impact on existing third party arrangements that other stakeholders have in place outside of the proposed outsourcing strategy (Vagadia 2007). It is common that in some industries such as the petrochemical industry, a myriad of third party contractors and contracts are in place that govern that particular segment of the business (Powell 2006). Powell advised against not omitting consideration of these arrangements in any outsourcing process. To not consider all third party contracts and arrangements and the needs of each segment of the business will result in a suboptimal outsourcing decision (Burnett 1998). Therefore according to Burnett the outsourcing process is required to obtain input from all stakeholders including those outside of the organisation where affected and then evaluate whether the objectives of the outsourcing arrangement is consistent with the broader objectives of the entity and at the same time not impact adversely on the specific business objectives of a segment of the business. Minoli (1995) confirmed a

similar view on gaining broad input from stakeholders to ascertain the consistency of outsourcing objectives versus the broader organisational objectives and aims.

A business objectives matrix as part of the outsourcing business case will outline general organisational business objectives, specific objectives of business segments and evaluate which of these objectives could be conceivably at odds with the objectives set out for the outsourcing arrangement proposed (Walmond 2000 ; Dominguez 2006). Conflicts between business units if any will be highlighted and can be addressed at any early stage or otherwise proceed to have the outsourcing decision implemented or shelved in consideration of these conflicts of objectives of business units (White and James 1996 ; Brown 2005).

Personal political agendas within an organisation may drive the outsourcing process (Oates 1998). This works for and against outsourcing according to some commentators (Brown 2005 ; Linder 2004). On the one hand, Linder viewed discussion and debate as constructive but she also cautioned that certain parties would argue for or against outsourcing solely in line with their own agendas. A decision to outsource may be made considering drivers which are inconsistent with broader business objectives (Durmaz 2008). Poor performing managers within an organisation may use outsourcing as a means of transferring the 'problem' to a third party supplier (Yelland 2006 ; Piachaud 2004). This is despite according to Yelland that the function could be improved or otherwise dealt with in ways outside of outsourcing. The outsourcing process is compromised if the outsourcing process does not consider the overall strategic objective, aim and direction of the organisation as a whole (Linder 2004). Therefore suboptimal outsourcing decisions are likely to be made if inappropriate drivers for outsourcing are considered in the process and as part of phase 1.

The literature has identified a number of drivers favouring the decision to outsource. Some of the key drivers for outsourcing consist of:

- Cost savings (Axelrod 2004)
- Accesss to technology (Lacity 1993)
- Obtaining a competitive advantage (Greaver 1999)
- Focus on strategic direction and functions (Burnett 1998)
- More efficient use of capital (Lendrum 2000)
- Gaining expertise in the functions being outsourced (Pitman 2000)

Cost savings may be a key driver to outsourcing. However in isolation cost savings (actual or perceived) according to Lacity (1993) should not solely drive the outsourcing decision. Outsourcing decision making needs to consider what the overall effect will be on the organisation despite that there may be cost savings (Cullen 2009). Similarly Minoli (1995) identified as a driver the decision to outsource solely based on whether

the function is deemed operational and therefore argued that this function is of a lesser business value. He questioned the merit of this approach to decide in the absence of other factors to outsource. Certainly this has often been the case according to O'Malley (2001) in corporate real estate outsourcing where a key driver for outsourcing has been that managing property is not a key competency, function or activity within the overall organisation. While cost reduction drivers for outsourcing are important considerations, meeting outsourcing and broader organisational objectives should be the main concern and reviewed as part of a business objectives matrix or similar quantitative approach where outsourcing as a concept is scored against its ability to meet desired organisational criteria and objectives (Pitman 2002 ; Mol 2007 ; Tunstall 2007).

2.7.1.3 Senior management buy in from the outset

Senior management understanding and support of the outsourcing process throughout all phases of the outsourcing life cycle is a critical success factor (Burnett 1998). Without senior management involvement, certain personal and political agendas within the organisation may influence the outsourcing process and decision making (White and James 1996). This according to White and James resulted in decisions being made that are likely to meet personal objectives of certain employees and not the objectives of the broader organisation. There is likely to be conflicts throughout the process between business units. Many of these conflicts with individual business units can be resolved; however the resolution of a serious impasse requires senior management assistance (Duening 2005). In addition, Mockler (2000) identified bottlenecks in the outsourcing process that may arise because one part of the organisation is either disruptive or not able to access or provide the resources to participate in the outsourcing process. Pitman (2000) argued for senior management to procure the necessary resources to enable the outsourcing process to progress efficiently through all phases. Without a proper budget and resource allocation sanctioned by senior management, the outsourcing process will stumble (Walmond 1997 ; Dominguez 2006).

An outsourcing project requires a project sponsor or champion to support any outsourcing project steering group (Pitman 2000). The 'project champion' according to Pitman is often selected from the ranks of senior management. If the outsourcing process is seen to have senior management approval then the 'buy in' to the process from other organisation members is more likely (Domberger 1998). Sponsoring an outsourcing project from the ranks of senior management gives the process legitimacy according to Selleck (2005).

2.7.1.4 Stakeholder buy in from the outset – utilise senior management assistance as required

Stakeholder buy in is often overlooked even if senior management buy in has been achieved (Gay and Essinger 2000). They believed that the outsourcing process required input and cooperation from all organisational segments and especially from those who are most likely to be affected by any proposed outsourcing arrangement. This was also confirmed by Linder (2004) and Durmaz (2008) who elaborated on the importance of the outsourcing process steering committee or similar body. This steering committee or outsourcing project team was according to Durmaz the day to day organisational team involved in bringing the outsourcing arrangement to light. Early on in the outsourcing process, Durmaz was of the opinion that the project steering team should identify those business segments likely to be most affected by the decision to outsource. As a minimum, Pitman (2000) thought it is likely that a representative of the affected organisational segment would have a consultative role on the project steering committee. However, for those segments where there is likely to be a major impact as a result of outsourcing, then participation on the outsourcing project steering committee or project outsourcing team is likely to be more appropriate according to Pitman. Notwithstanding that senior management may assist with dispute resolution and resource allocation throughout the process it is likely without stakeholder buy in then the outsourcing process may not be conducted in as smooth and efficient manner as desired (Brown 2005). Brown was adamant that the decision as to the extent of involvement of stakeholders in the process needs to be made at the outset by senior management and implemented in an effective manner from the outset. Basten (2003) indicated that stakeholder involvement in the outsourcing process during the early phase may be as part of the steering committee, some consultative role or have other tangible input into the process.

2.7.1.5 Establish the project outsourcing team and accountabilities

A project outsourcing team with a defined charter and responsibilities will be established at the outset to commence the outsourcing process and then most likely proceed to the transition phase of the outsourcing process (Friedman 2007 ; Hale 2006). Burkholder (2006) and Powell (2006) believed that this team is likely to be multi disciplinary and thereby comprise representatives of each business segment affected by the decision to outsource. Apart from a 'project champion' that was discussed earlier, a project team leader is required to be appointed to manage the team and ensure it operates within the charter and accountabilities set for the team by senior management (Greaver 1999 ; Oates 1998).

The project team requires sufficient resources to complete its tasks (Kemal and Singh 2006). Kemal and Singh concluded that while a time line can be set for the outsourcing process, the vagaries of the outsourcing process will inevitably result in cost and time delays. However, he viewed the defined timelines ensure that the project steering team will work towards defined time goals. Sufficient resources need to be available to the project team. In sufficient monetary and personnel resources will seriously compromise the success of the project team. The project team will need to sign off the budget, accountabilities and timelines as being appropriate (DOFA 1998).

The outsourcing project team leader requires certain attributes, skills and experience to successfully manage the process. Department of Treasury and Finance (1997) stated that the project team leader requires good communication and people skills. Outsourcing as a concept can create instability and concern throughout the organisation (Axelrod 2004). Domberger (1998) considered that a project team leader needs to work within this context and assist in gaining the trust and support of the broader organisation. Therefore the success of the outsourcing project is dependent on the project team leader being able to coordinate organisational resources and deal with a variety of competing needs and wants throughout the organisation (Office of Government Commerce 2002).

Greaver (1999) stated that outsourcing project teams may engage specialist and external outsourcing advisors to provide advice and assistance especially during the early phases of the outsourcing process. There is some disagreement in the literature as to the role of specialist outsourcing consultants within the context of the project team. The knowledge and know how of a specialist outsourcing consultant can assist the outsourcing project team (KPMG 1995). However there is a counter argument that the consultant should provide arms length technical expertise only and not be a member of the team given the team may need to consider a broad range of organisational issues that may be confidential and not able to be shared with outsiders (Lendrum 2000; Grostley Management Consulting 2003). The use of outside consultants to assist with the outsourcing process is a growing trend (KPMG 1995). While there are benefits with using the expertise of outside outsourcing consultants, consideration needs to be made to ensure that the project team made up of internal team members and the external outsourcing consultant do not work at cross purposes or otherwise cause confusion and division in implementing the outsourcing strategy (Imrie 2000). Therefore, the employment of outside consultants would require that the scope of engagement, services, direction and deliverables desired from the outside consultant are carefully devised at the outset to ensure a proper working relationship (Walmond 1997 ; Pitman 2000).

2.7.1.6 Careful consideration in the selection of the project team leader

Durmaz (2008) highlighted the importance of selecting a qualified and experienced project team leader to lead the outsourcing project team. Without a suitable project team leader, the activities of the outsourcing project team can be severely compromised according to Durmaz. The literature confirmed that a project team leader has a critical role to lead and direct the team through the first three phases of the outsourcing process. Leadership skills are an important part of the project leader's make up (McIvor 2005 ; Johnson 1999 ; Brown 2005). In particular, the following established from the literature are seen as essential attributes and skills for the team leader to exhibit during the initial three phases of the outsourcing process:

- Change manager attitude, understanding outsourcing as a change management process and outsourcing's effect on the organisation but at the same time being a 'champion of change' and not afraid to challenge entrenched organisational attitudes and values (White and James 1996)
- Planning skills, especially being able to see through 'organisational clutter' and drive 'top down' strategic management (Basten 2003 ; Pollit 2005)
- Project management skills, keeping the team focused on the required tasks, managing deadlines and setting task priorities (Lendrum 2000)
- Selling skills, selling outsourcing as a concept to both internal and external organisation stakeholders (Klepper and Jones 1998)
- Communication skills, clear, concise and accurate communication to affected parties within the organisation (Harbinson and Pekar 1998)
- Negotiation skills, empathy, integrity and maintaining an ethical set of standards throughout the process (Johnson 1997)
- Process management skills, managing the process with proper delegation, control and monitoring process especially relating to larger scale outsourcing projects (Jones and Jowett 1998)

2.7.1.7 Establishing the business case (especially derivation of base line costs and risk analysis of the proposed outsourcing arrangement)

Gartner (2002) stated that the business case and recommendation as to outsource or not is the project team's main deliverable of the first phase of the outsourcing process. Included in the derivation of the business case according to Gartner is the consideration of base line costs of inhouse services to be outsourced. The initial derivation of base line costs was highlighted in the literature review as being a phase 1 activity. Without a proper base line cost analysis then the decision to outsourcing will be made without proper regard of the current cost of operating the business functions

to be outsourced (Johnson 1997 ; Lendrum 2000). According to Lendrum base line costs should be prepared on a total life basis. There is a tendency to assess only the costs applicable at the time of writing the business case. However this is misleading according to Lendrum as future costs may need to be expended to ensure that the business function continues to be viable. He gave some examples such as the cost of upgrades in technology to meet future legislative requires would need to be considered as part of the base line costs notwithstanding that the cost is not relevant at the time of the business case. Independent verification by the organisation's internal or external auditor of the base line calculation is deemed necessary to ensure that is an objective and impartial check of the calculations performed by the project team (Minoli 1996 ; Friedman 2007). Minoli (1995) confirmed that base line costs should be subject to ongoing review throughout the outsourcing process. Therefore at the transition phase (phase 3) of the outsourcing these initial base line costs may be required if circumstances so dictate need to be revised on the basis of information derived in the prior phase.

Risk analysis is a critical part of compiling the business case. Notwithstanding the benefits of outsourcing, outsourcing carries its own risk profile and introduces to the organisation additional risks (Hirschheim and Heinze 2009 ; Beulen et al. 2006). Some of these risks of outsourcing are in addition to the normal operating risks faced by the organisation. The business case will analyse risk in detail. A risk evaluation template is suggested as a means of presenting risk in a business case (Selleck 2005). This template according to Selleck will outline the risk factor and the severity of the risk factor. In addition, the risk evaluation template will outline how the risk can be mitigated.

An outsourcing 'balanced scorecard' has been suggested as a means to encourage more open management thinking on outsourcing (Walmond 2000). In simple terms, a balanced scorecard operates to review all organisational functions in terms of whether the relevant function or service would be conducted in house or whether it would be outsourced if the organisation was about to commence trading (Pitman 2000). The rationale for this type of analysis is that management is not constrained by its current circumstance and allows for alternative views to be presented (Basten 2003). On the other hand, Durmaz (2008) argued that the 'in house' or status quo option should also receive prominent discussion in the outsourcing business case and that the viewpoints of proponents of this 'status quo' strategy should be given an opportunity to outline their viewpoint within the business case presented to senior management. Some critics of outsourcing are concerned that opponents of outsourcing are not given sufficient opportunity to express their views and therefore alternative assessment criteria and

evaluation techniques are not presented within the business case (Lacity 1993 ; Greaver 1999 ; Linder 2004 ; Oshri 2008).

2.7.1.8 Articulate your service standards and manage stakeholder expectations during the initial phases of the outsourcing process

The project team will outline the scope, nature of the proposed outsourcing arrangement including service standards and performance outcome expected in any outsourcing arrangement (Lendrum 2000). Service standards expected in any outsourcing arrangement need to be articulated early as part of the initial outsourcing phase (Corporate Executive Board 2002). The business case will typically outline the nature of services and expected performance standards expected in the outsourcing arrangement according to Corbett (2007). Corbett added that these desired performance standards should be prioritised by the outsourcing project team as to desirability. Rothery and Robertson (1996) cautioned that the expectations of senior management as to outsourcing performance may often be unrealistic and the project team should carefully manage these expectations. Similarly stakeholder expectations need to be managed in a manner that does not overplay the benefits that outsourcing may produce (Burkholder 2006 ; Bragg 2006). Stakeholder service expectations need to be taken into account by the outsourcing project team according to Corporate Executive Board (2002). DOFA (1998) mentioned that interviews by the project team with key stakeholders will form part of the first phase so as to discover key service needs especially in respect to response times, communication, discretions, requests and communication channels. If service standards are devised without key stakeholder consultation it could compromise the outsourcing process in later phases when suppliers are informed of service requirements and standards that are inconsistent with shareholder expectations (Minoli 1995).

2.7.1.9 Assess and articulate clearly information gaps, problems and limitations of implementing an outsourcing arrangement

The outsourcing process requires consideration of information gaps, organisational problems and limitations either perceived or actual (Dominguez 2006). Pitman (2000) discussed that outsourcing is often considered in response to limitations or problems with in house operations and outsourcing is often considered as a knee jerk reaction without proper analysis especially to information gaps and structural limitations of the organisation to deal with outsourcing. Suppliers need to know what information gaps and organisational limitation exist so that a proper assessment can be made by the prospective supplier of its ability to perform within the scope of the outsourcing arrangement (Duening 2005 ; Jenster 2005 ; Walmond 2000). At this early phase of the

outsourcing process Walmond is of the view that the project outsourcing team can assess the severity of any information gaps or organisational limits. This is part of the overall risk assessment as to whether the absence of information or organisational limitations present significant risk issues to the business or otherwise compromise the feasibility of outsourcing (Marcella 1995). As an example of gaps discovered, Marcella argued that without a detailed asset register, outsourcing of real estate or transfer of physical assets to an external supplier may open up the organisation to potential risks of financial loss. Similarly according to Marcella if the organisation has existing contractual matters or disputes with existing suppliers, resolution of these matters may be a condition precedent of considering outsourcing. The decision to continue with the outsourcing process depends on the severity and risk of the information gaps, organisational problems and limitations identified (Johnson 1997). If the decision is made to continue with the outsourcing process knowing that there are information gaps then this can be addressed at an early stage and a more complete supplier information document can be finalised as part of the next phase of the outsourcing process (Klepper and Jones 1998).

2.7.1.10 Devise a communication strategy tailored to meet needs of all affected organisational and external stakeholders

Communication is important throughout all five phases of the outsourcing process (KPMG 1995). The literature has defined the key traits of a suitable communication strategy for the implementation of outsourcing arrangements Both Trevor (2005) and Walmond (2000) considered that a communication strategy is devised by the project team at the outset and this communication strategy addresses the differing communication needs of senior management, employees and external parties. Of particular importance is that proper, honest and fair communication is maintained at all times (Linder 2004). Klepper (1998) cautioned that the outsourcing process is known to cause organisational uncertainty among those employees who may be affected by outsourcing. McIvor (2005) and Dominguez (2006) were of the opinion that minimising organisational uncertainty is assisted by a proper communication strategy that ensures that timely and accurate information is disseminated by the project team and not through rumour or innuendo.

There are differing opinions as to when the communication strategy should commence in any outsourcing process. Brown (2005) considered that stakeholders should be aware as early as possible that outsourcing of previously inhouse functions is being contemplated. On the other hand there is the view that no communication is disseminated until the decision to progress with the outsourcing process has been signed off by senior management so as to not create undue disruption or consternation

amongst the employees affected by outsourcing (Millgate 2001 ; Pollit 2005 ; McIvor 2005). Irrespective of the timing, communication is expected to consider a defined process, proper manner and allow opportunity for feedback. Stakeholder consultation and feed back is paramount in ensuring a proper and efficient outsourcing process (DOFA 1998).

2.7.1.11 Plan for and deal with human resource issues from the outset

It is expected that the outsourcing process will deal with human resource issues. Outsourcing typically involves the transfer of assets and staff from the organisation to a third party supplier (Lendrum 2000). There are numerous legislative and employment contractual issues to consider as part of the outsource process and especially relating to the transfer of employees out of the organisation to the third party supplier (Desai 2009). Human resource issues are initially addressed within the business case (Pollit 2005). Termination costs and other entitlements due to affected staff from outsourcing arrangements need to be evaluated and outlined within the business case (Durmaz 2008).

Outside of the employee financial obligations, dealing with the uncertainties of outsourcing that present to affected employees needs to be considered as part of the first phase (Basten 2003). Organisations need to consider the damage to their reputation and public standing of badly managing the human resource issues pertaining to outsourcing (Hale 2006). Employee support to the outsourcing process is critical as the outsourcing process for the transition phase requires employee cooperation to ensure a smooth transition. Linder (2004) argued that if human resource issues are not properly handled then the transition process will be compromised. Various types of support strategies need to be developed as part of the first phase of the outsourcing process according to Linder. Support strategies to assist affected employees include provision of employee outplacement services, financial advice and offering re deployment opportunities to those employees wishing to avail themselves of available opportunities (Pollit 2005 ; Frenza 1999).

A strategy to manage the human resource concerns, problems and risks in the outsourcing process needs to be considered (O'Malley 2001). The strategy according to O'Malley details risk management approaches to ensure that employees affected by outsourcing are treated fairly and ethically. At the same time he stated that the human resource strategy will deal upfront with uncooperative employees who do not wish to participate or contribute to the process. Risk management pertaining to human resource issues involves identification of the role of employees and managers in the outsourcing process (White and James 1996). White and James recommended that

corrective action early on is required so as to ensure that roadblocks and bottlenecks are not created from disgruntled employees. As part of the business case, Rothery and Robertson (1996) proposed that an analysis is conducted on the number, type and role of staff to be transferred as part of the outsourcing process. They considered that those employees who will not be part of the outsource process should be identified as early as possible and a separate strategy is devised to deal with them. Dominguez (2006) cautioned against keeping affected employees in limbo or otherwise waiting for a decision to be made while the organisation process underway.

Communication is the key to handling human resource issues (Pollit 2005 ; Brudenall 2005). The business case according to Walmond (1997) should address the communication strategy for affected employees. It is common to hold manager briefing sessions at the outset to explain the outsourcing program and the process. Walmond was of the view that this assists in eliminating misinformation that may be spread via rumour or gossip as often occurs when the communication about the outsourcing process is stifled.

Duening (2005) suggested that human resource planning involves assessment of the most appropriate staff who will lead the outsourcing arrangement beyond the transition phase (phase 3). Although the project team and project leader will take the process to the end of phase 3, consideration needs to be given as to who will manage the outsourcing arrangement once the contract commences (Hurley and Costa 2001). This forward planning according to Hurley and Costa is an important part of the first phase of the outsourcing process and is part of risk mitigation. Imrie (2000) stated that in many cases, a member or members of the project team will be involved with management of the outsourcing contract. However this is not always the case according to other researchers such as Basten (2003). Basten recommended that if a suitable candidate cannot be identified from available in house employees then the project team should highlight this as a risk and propose a plan to mitigate this risk. Basten thought that this may involve recruiting a suitable candidate during phase 2 to assist with the transition to outsourcing and/or manage the outsourcing contract.

2.7.1.12 Research the specific outsourcing market (visit and talk to other users with relevant outsourcing experience)

Aalders (2001) concluded that research of the relevant outsourcing market and the experience of other users can be of benefit in the early stages of the outsourcing process. Pitman (2000) concluded that discussing with users of outsourcing services their experiences with outsourcing represent an excellent resource to explore the merits or otherwise of a particular outsourcing arrangement and the standing of any

particular supplier. As a result of the research into outsourcing conducted, the business case can be prepared to address specific risks and issues and problems identified by users of similar outsourcing services to that proposed for the organisation (Minoli 1995). Also, the research undertaken will assist in preparing the short list of suitable suppliers that may participate in any tender based on their actual or perceived standing in the market place as deduced from the research undertaken (Koulopoulos and Roloff 2006 ; Imrie 2000). This list of suitable suppliers provides valuable feedback to the project team in preparing the business plan according to Imrie.

The reality is that the number of suppliers or users experienced with similar outsourcing arrangements may be limited. The experience for major information systems and corporate real estate outsourcing is that the number of suitable suppliers is limited (Noble 2003). However where possible the research undertaken allows the project team to better prepare tender and request for proposal documentation in phase 2 by listening to the experiences of other users of similar outsourcing products and services (Selleck 2005). Ultimately, the research in this early phase of the outsourcing process according to Selleck will be to identify those suppliers who can on the facts discovered identify those suppliers who can partner with the organisation. Allowing for limitations pertaining to information gaps and other constraints within the organisation that needs to be addressed, the research may identify obvious expertise, experience and performance problems with the suppliers who are offering outsourcing services desired by the organisation (Cullen and Willcocks 2003 ; Lacity 1993). Supplier research allowing for its limitations assists in evaluating risks and issues with any supplier and the outsourcing process in general.

2.7.1.13 Build a culture from the outset that values a partnering approach in any outsourcing arrangement

Lendrum (2000) suggested that as early as possible, a partnering culture needs to be framed and accepted by the project team as the preferred route for the implementation of an outsourcing arrangement. According to Lendrum this partnership culture is built over the total outsourcing life cycle. In the early phases, it is suggested by Lendrum that a partnering set of principles is established and agreed as an integral part of establishing the outsourcing arrangement. Partnering principles involve risk sharing, proper rewards and penalties, honest and ethical dealings via an open book and transparent approach (Lendrum 2000). The principle of building a culture that values a partnering approach with the supplier needs to be sanctioned as part of the business case sign off (Basten 2003). Specifically this will ensure according to Tho (2005) that the request for proposal and tender process in phase 2 is conducted with a partnering approach in mind and not based on an adversarial approach.

Trevor (2005) saw that impediments on building a culture are often organisation specific. They identified that traditional bureaucratic managed organisations find it difficult to make the transition to a partnering culture. An existing partnering culture or the development of a partnering culture is a common theme throughout the literature as a success factor required in outsourcing (Brown 2005 ; Duening 2005 ; Lendrum 2000). In addition, Lynch (1993), Yelland (2006) and Lendrum (2000) considered that rigid centralised decision-making, lack of managerial discretion and lack of 'intrapreneurship' could impede successful outsourcing. The concept of 'transformational outsourcing' was introduced by Jones Lang Lasalle (2006) and Linder (2004) as a form of outsourcing process that concentrated on changing organisational culture as a prelude to implementing an outsourcing arrangement. Jones Lang Lasalle concluded that for outsourcing to work, the organisation had to be transformed culturally from one that is internally focused to one that is able to work as a partner not purely as a client of the supplier providing the outsourced service. At the outset, senior management is required to take steps that eradicate cultural barriers to enhancing an organisational culture that is conducive to outsourcing. These steps include changing internal management to ensure that traditional viewpoints and rigid managerial styles are replaced by more open thought patterns conducive to making outsourcing work successfully (Dominguez 2006). In the first phase of the outsourcing process, senior management according to Pitman (2000) could well perform a 'culture audit' to ascertain whether there are any internal cultural impediments that may impact on the success or otherwise of the outsourcing process. However, the overall effectiveness of culture change management is still unclear as to effectiveness and ultimately the reality is that an organisation will need to approach the outsourcing arrangement with the existing heavily entrenched management culture and practices in place (Hale 2006).

2.7.1.14 Preparing for the next phase and satisfactory conclusion of Phase 1

A review of the literature quoted previously in this section and additional references listed below has determined that if phase 1 (initial objectives setting, analysis and review phase) is successfully concluded the following has been achieved and deliverables obtained:

- Senior management 'buy in' and project championing (KPMG 1995 ; Basten 2003)
- A clear understanding of the business objectives and drivers of outsourcing and their consistency with broader organisational and stakeholder objectives (Millgate 2001)
- A project team established with a project leader dedicated to the outsourcing process (Minoli 1995)

- Sufficient resources and budget allocated to the outsourcing process with accountabilities, scope, deliverable and timelines agreed between the project team and senior management (Selleck 2005).
- Significant stakeholder involvement in the process and business plan formation (Brudenall 2005)
- Creation of a partnering mind set as the standard approach to the outsourcing arrangement (Lendrum 2000)
- A business case signed off by senior management that has proper risk analysis and consideration of base line costs (Linder 2004)
- A communication strategy to deal with the outsourcing process through to end of phase 3 as a minimum (Pitman 2000)
- A human resource strategy to deal with affected employees in an ethical and transparent manner (Pollit 2005)
- A research of the relevant outsourcing market and identification of suitable supplier candidates (Sparrow 2003)
- An organisational culture audit to be performed by senior management to ascertain if organisational culture is conducive to outsourcing (Selleck 2005)
- Organisational changes to be instituted with the objective of creating a more conducive partnering culture required for successful outsourcing (Lendrum 2000)

2.7.2 Phase 2 : Tender, Negotiation and Selection of Successful Supplier Phase

Once the decision to outsource has been made at the end of phase 1, then phase 2 will involve tendering, negotiation of contract terms and selection of the preferred supplier (Gartner 2002). Various qualitative and quantitative analysis techniques to select the preferred supplier will be used in this phase (Department of Treasury and Finance 1997).

Millgate (2001), Linder (2004) and Powell (2006) discussed that once the decision has been made to outsource current inhouse operations, the next phase involved the preparation of a request for proposal and a formal tender. Powell thought a capability statement from prospective suppliers may assist in ascertaining the number of suppliers that are likely to be able to meet the outsourcing requirements. A capability statement was deemed by Trevor (2005) to be of value in the initial assessment of ascertaining prospective and qualifying potential suppliers. The capability statement according to Trevor was a preliminary request from prospective suppliers as to their credentials, background and their belief as to why they had the capacity to perform the

tasks required by an outsourcing arrangement. He believed that the results obtained would assist organisations in forming an opinion as to whether there were sufficient suppliers to justify an outsourcing tender. However, Basten (2003) contented that where there were a few prospective suppliers a capability statement would provide little benefit in qualifying prospective suppliers. According to Basten, if the number of suppliers is limited it is likely their individual capability and background would be generally known irrespective of the results obtained from a capability statement. However the literature supports the concept of using a capability statement. MOPC (2000) stated that where there were many suppliers then a capability statement as to experience and background was useful to short list the prospective suppliers.

Grostley Management Consulting (2003) considered that phase 2 was concerned with selection of the successful supplier. A key deliverable according to Grostley Management Consulting of Phase 2 involved preparation of the tender document. Researchers differed as to their views on content, length and complexity of the tender document. Minoli (1995) believed the tender document should be brief and formulated to extract a comprehensive reply from the prospective supplier. Williams (1998) considered that the document should be comprehensive and proscriptive as to what is required from the contract. The research was required to explore the nature of tender documentation and its best fit to corporate real estate outsourcing given the literature was not definitive on the nature and format of tender documentation.

Yelland (2006) stated that the evaluation of tender responses was a key part of phase 2. The literature is divided as to what evaluation techniques are suitable for evaluation of outsourcing tenders. The literature was consistent in recommending the use of discounted cash flow techniques and other quantitative techniques to derive appropriate cost comparisons between outsourcing proposals (Minoli 1995 ; Pitman 2000 ; Linder 2004). However there appeared no clear direction in the literature as to what qualitative analysis techniques were more appropriate in selection of suppliers providing outsourcing services. Supplier references, site inspections and visitations were considered but no one qualitative technique was deemed to have any more validity than any other. The research was required to explore the benefits or otherwise of specific evaluation tools and techniques for evaluation of real estate outsourcing tenders.

Key activities particularly relevant during phase 2 would include:

- preparing and issuing tender documentation to prospective suppliers. (Dominguez 2006)
- developing an evaluation checklist and/or guidelines to assess tenders (Jenster 2005)

- developing a suitable human resource strategy. (Pollit 2005)
- managing the communication strategy carefully (Harney 2002)
- reassessing risks and benefits in the light of tender responses (Duening 2005)
- selecting the preferred tenderer (Lendrum 2000)

Phase 2 requires a number of processes and deliverables that are integral to the successful completion of this phase of the outsourcing process. These process and deliverables are outlined below.

2.7.2.1 Completing the preparatory work before the commencement of the formal tender

A criticism of the outsourcing process conducted by some organisations is that tender documents are released without proper consideration of the key items that affect the proposed tender (Vagadia 2007). This problem could be mitigated by engaging in a preparatory pre tender process according to Vagadia. Rishton and Walker (2007) in their review of the transport and logistics sector found that suppliers considered the poor quality of tender documentation as a key concern in being able to respond to a tender. Marcella (1995) believed that many organisations do not properly complete the necessary preparatory work prior to commencing the tender process. There is some discussion in Marcella as to the worth of a request for information process prior to commencing the formal tender process. This request for information involves prequalifying prospective tenders prior to issue of the formal tender documentation. The aim under this strategy according to Marcella is to reduce the number of non suitable suppliers who are forwarded the tender documents as a result of the information obtained. Another benefit from issuing a request for information document relate to obtaining market information that may have been missed during the phase 1 outsourcing research work done in preparing the business case (Bragg 2006). Based on some of the responses received, the outsourcing project team according to Bragg could review its performance standards, expectations and objectives. This conceivably will assist in producing tender documentation that is more attune to what is reasonably able to be delivered by the prospective suppliers. However, Basten (2003) considers that where the number of suppliers is limited to only a few suppliers, a request for information and/or capabilities statement from suppliers may be of little value and could present delays. Also, Basten thought that the desire of suppliers to participate in a long outsourcing process where significant resources are required at the pretender stage is open to question.

Imrie (2000) considered that the format of any pretender or request for information document is dictated by the relevant outsourcing arrangement to be conducted. He

concluded the following list to be minimum requirements in any request for information document or capabilities statement forwarded to prospective suppliers as part of the pre-tender process:

- Brief description of business, current operations and services to be outsourced
- Scope of outsourcing services to be provided by the supplier including brief overview of expectations of performance
- Supplier details required including experience/track record
- A summary of the tender process proposed by the organisation
- Confirmation of supplier as to capability and desire to participate on the broad terms proposed

Dominguez (2006) considered that the responses received from the suppliers in the pretender phase will assist in short listing which suppliers participate in the tender process. Chorafas (2003) cautioned that the information provided in a request for information document be consistent with what is proposed for the actual tender documentation that is subsequently forwarded to the tender party. Should there be major differences according to Chorafas (2003) there is the possibility that an inappropriate or otherwise unqualified supplier has been chosen to participate in the tender process. If the process has been conducted properly, then Lendrum (2000) concluded that the pre tender request for information/capability statement has:

- Provided sufficient information as to which suppliers have the capability to meet the outsourcing objectives and scope
- Provided feedback as to the feasibility or otherwise of the outsourcing objectives and scope derived during phase 1

In addition Lendrum (2000) confirmed that subject to senior management and the project team being satisfied with the findings from the pre tender process then a request for proposal (formal tender document) will be forwarded to the short listed suppliers. Not withstanding the format of the tender or request for proposal documentation adopted by the organisation, the literature is consistent that the focus of the tender documentation is on scope, objectives and desired results of the outsourcing arrangement (Bragg 2006).

2.7.2.2 Tender documents require clear statement of outsourcing scope, aims and objectives in absolute and relative terms

Linder (2004) discussed that the scope, drivers, expectations and objectives of outsourcing need clear enunciation in any tender document produced for circulation to the tendering parties. Although the format of the tender documentation can take many forms depending on the nature of the outsourcing arrangement, White and James

(1996) were more forthright in that it is expected that the tender documents provide a form of 'mission statement' desired for the outsourcing arrangement. Suppliers require an understanding of what is driving the outsourcing process in the mind of the tendering organisation for them to respond properly (Sparrow 2003). Knowledge of the outsourcing scope and objectives will assist the supplier to focus on key outsourcing needs and determine whether the supplier can provide a service which meets the required outsourcing scope and objectives (Jenster 2005).

Documenting the scope and objectives of the proposed outsourcing arrangement in the tender requires proceeding from the general to the specific requirements and key performance criteria expressed in the tender both in absolute and relative terms (Pitman 2000). This means according to Pitman that while there is a general description as to the outsourcing objectives and drivers (for example cost savings) in the tender documentation, there needs a detailed outline in the tender documentation expressed in absolute and in relative terms of the specific objectives relating to the outsourcing objective (for example reduction of property acquisition costs by a certain percentage rather than purely in absolute dollar terms) in the outsourcing tender documentation.

Proposed services agreements and standards need to be articulated consistently throughout the tender documentation (Rivard 2007 ; Johnson 1997). For example, Johnson considered that the tender documentation will typically incorporate a proposed service level agreement or statement in the proposed contract that mentions specific targets and performance standards expected from the supplier. Basten (2003) argued for a consistency review and check of the tender documentation. This according to Basten is considered important to ensure that there is no conflicting scope, objective or performance standard specification within the tender documentation. Trevor (2005) suggested that this 'consistency check' review is conducted by a person(s) outside of the project team. All documentation should be reviewed for legal compliance by the organisation's legal advisers prior to issue and at the same time a consistency review of the outsourcing scope, objectives and performance standard principles within the tender documentation would be opportune according to Minoli (1995). Department of Treasury and Finance (1997) advised that internal and/or external auditor review of the tender documentation be conducted in advance of issuing the tender documentation to prospective suppliers.

2.7.2.3 Use tender process and produce documentation consistent with establishing a partnering approach and mind set

Maintaining ethical compliance in the tendering process assists in establishing a partnering approach. The establishment of an ethics and compliance review process has been instituted by listed Australian organisations to monitor larger scale tender, procurement and outsourcing tenders (Trevor 2005). This according to Trevor has been in response to scrutiny from regulatory authorities and the organisation's concern to maintain its reputation and counter any criticism as to favouritism or conducting a flawed tender process. He further outlined that an ethics and compliance review officer (often an external lawyer) sits on tender interviews with suppliers and evaluation sessions with senior management and the outsourcing project team. The focus for most organisations according to Trevor is more on legal compliance and not on developing a partnering approach with the supplier during the tender process. Finalisation of the tender documentation process is not an end in itself. Notwithstanding the importance of the legal contract rights in the contract the ability of the organisation and supplier to work together depends as much on attitude between the parties as it does on legal rights and privileges within a tender and contractual document (Ventralla 1994). Ventralla thought that a legalistic and adversarial approach is seen as an inhibitor to successful outsourcing relationship. A partnering or alliance approach is seen as establishing a more conducive outsourcing arrangement (Lendrum 2000 ; Cullen and Willcocks 2003).

The importance of establishing a partnering or alliance approach with prospective suppliers has also been detailed in Department of Treasury and Finance (1997). Adversarial tender strategies according to Department of Treasury and Finance can build mistrust and friction at an early stage in the outsourcing process that can linger and impact on outsourcing performance. Accordingly, the philosophy and mind set of developing a partnering mentality in an outsourcing arrangement is paramount according to Department of Treasury and Finance. Heywood (2001) and Lendrum (2000) articulated that the concept of partnering and alliances mean different things to different people and therefore what is a partnering or alliance strategy in one organisation may be different in another organisation. Pitman (2000) believed that the development of a 'true' partnering strategy within the outsourcing process is dependent on organisational culture and management practices. It is not possible to change deeply entrenched management cultures within an organisation according to Pitman but Lendrum (2000) has suggested that in any outsourcing process, a partnering and alliance culture especially in the initial outsourcing phases can be assisted by:

- Establishing outsourcing as a management discipline. Encourage management to consider outsourcing as a management function that is a tool available to management to increase efficiency and effectiveness within the organisation. Training in outsourcing methodologies and approaches as a management skill is offered as a means of building management expertise within the organisation. Basten (2003) has suggested creation of an organisational centre of excellence for outsourcing decision making and implementation. The advantages of this according to Basten are the existence of a separate segment of the organisation that can develop an expertise in development of outsourcing strategies. In addition, project team members and the project leader may be sourced from this centre of excellence.
- Participating in the development of the tender documentation. For stakeholders to be involved in the outsourcing process and not feel that it is thrust upon them, Heywood (2001) and Imrie (2000) recommended that broad organisational input into the development of the outsourcing tender documentation is essential. In particular, stakeholders affected by the outsourcing arrangement are able to comment on the service standards embodied into the tender documentation. This point is further developed by Hill and Jones (1990) and Yelland (2006) who stressed that the stakeholders would be more willing partners in accepting service level standards that they had input into creating.
- Divulging information to suppliers fairly and consistently, especially that information which could impact on their ability to provide the desired service. Information gaps, limitations and perceived problems within the organisations that may adversely impact on performance need to be divulged within the tender documentation. This will enhance trust. Establishing trust is considered a major part of the partnering and alliance process. There is a view that a current services scorecard should be included with the tender documentation to reflect the current level of service also espoused in Williams (1998). This achieves two aims, firstly the prospective supplier is aware of those areas that require more attention and secondly the supplier is aware of the performance standards that need to be equalled or surpassed as outlined in the tender documentation.
- Encouraging supplier innovation but at the same time remembering the focus should be on objectives. The supplier should be encouraged as part of its reply to the tender to provide innovative solutions if this is relevant and in keeping with the scope, objectives and aims of the proposed outsourcing arrangement. Allowing for innovation and creativity by the supplier assists in developing a partnering and alliance approach very early on in the outsourcing process.

While standardisation of the response format is important to ensure the suppliers respond to the critical information requirements, the ability for the supplier to show some initiative and know how in its response to the tender should not be impeded. This view is consistent with Imrie (2000), Rivard (2007) and Bragg (2006).

2.7.2.4 Establish a tender process with stakeholder and management buy in to timetable, resources allocated and key performance criteria

Cullen (2009) and Dominguez (2006) stated that outsourcing presents challenges and opportunities to the organisation that are not necessarily accepted or understood by the wider organisation and external stakeholders. Moreover according to Dominguez not all organisational stakeholders readily embody the outsourcing concept or wish to participate in the outsourcing process. Accordingly, the tender process needs to be conducted with the input and cooperation of internal and external stakeholders to the tender process (Milgate 2001). Milgate discussed the particular importance of the timelines proposed for the implementation of any outsourcing strategy. He believed that an outsourcing implementation timeline set by the project team may be unsuitable to certain stakeholders. The project team according to Milgate may require dedicated stakeholder resources during the initial phases of the outsourcing process. Once again, stakeholder approval and acceptance to the resource request should be obtained in advance of the project team utilising these resources. This is consistent with the views espoused by Minoli (1995) and Chorafas (2003). Senior management support may be required according to Corbett (2004) and KPMG (1995) to assist with stakeholder resistance to providing necessary resources during the tender process.

According to Bragg (2006) service level agreements should not be made without significant stakeholder input. The expectation discussed in Bragg is that the organisational scope, objectives and aims derived as part of the construction of the business case reflected the needs of stakeholders. However, the service level agreement where utilised will bind the organisation and supplier. Burnett (1998) stressed that it may be either too late or too costly to change the performance standards within the service level agreement after the contract has been executed. Anderson Consulting (1998) discussed that stakeholders are interested in the pertinent service standards that affect their part of the total organisation business. Accordingly given they will need to live with the consequences of the outsourcing contract, stakeholder signoff to the relevant service level criteria is advisable if there is going to be stakeholder buy in to the outsourcing process and in turn the outsourcing arrangement once it is implemented. This does not mean according to Dominguez (2006) that there will not be conflicts between stakeholder wants and broader

organisational aims and objectives pertaining to the outsourcing arrangement proposed. Noble (2003) contended that when there is a conflict that the broader organisational aims and objectives pertaining to the outsourcing arrangement should prevail. If the proper review, analysis and engagement of outsourcing were conducted in the early phase then stakeholders should be under no illusion as to why the outsourcing process is being undertaken and similarly what the performance expectations are desired (Lendrum 2000).

2.7.2.5 Develop tender guidelines, criteria, weightings and scoring system to assist with supplier selection

An objective, fair and ethical evaluation system of supplier responses to the tender is considered a prerequisite to implementing a proper outsourcing arrangement (Majjar 2003). Various commentators have identified supplier selection risk as the risk of selecting an inappropriate supplier (Lacity 2009 ; Millgate 2001). Supplier selection risk can be minimised by proper evaluation and assessment techniques of supplier responses according to Rothery and Robertson (1996). They identified the tender evaluation instrument as a key part of the supplier evaluation process. They stated that the evaluation instrument is most likely developed during phase 1 as a 'first cut' but refined and finalised early on in phase 2. The literature considers the following key requirements in a proper evaluation assessment instrument prepared for the purpose of assessing supplier responses to the request for proposal or tender:

- Define evaluation criteria predominantly in respect to the outsourcing arrangement's scope, aim and objectives (Lacity 1993). Focus on tangible criteria that can be measured was seen as critical (Costa and Beaumont 2001). However, Pitman (2000) stated that the intangible benefits of outsourcing such as impact on organisation reputation should be assessed adopting more qualitative assessment techniques. For example, some criteria according to Pitman such as 'cultural fit' with supplier's culture cannot be easily measured in quantitative terms and a qualitative assessment needs to be made. It would follow according to Pitman that as with any assessment of quantitative criteria, any qualitative criteria assessment needs to be made adopting the evidence from the tender and a having a basis for scoring.
- Measurement of supplier attributes and expected performance gained from the supplier's reply to the request for proposal should be consistent for the type of criteria being analysed (Selleck 2005). Selleck recommended that quantitative criteria should adopt consistent measurement principles for all quantitative criteria and similarly for qualitative criteria, consistent measurement principles adopted for qualitative criteria. The distinction between quantitative criteria

(assessed in the light of hard numbers) and qualitative criteria (assessed based on opinion or gut feel as the criteria may dictate) is often blurred according to Selleck. For example, Selleck contends that supplier experience can be assessed in quantitative terms as to length and scope of services offered. However the project team will need to make an assessment as to whether the experience is compatible or relevant to the outsourcing proposal. Harney (2002) and Yelland (2006) contended that measuring relationship dynamics that is the ability of organisation and supplier to work together is more of a qualitative exercise and not easily reduced to a simple scoring system.

- Relationship dynamics is an important assessment consideration (Aalders 2001). In simple terms, Aalders believed that the project team needs to form an opinion as to whether the organisation can work with this supplier. The evaluation approach is likely to adopt a number of quantitative and qualitative assessment approaches and take into account cultural fit, objectives, relative bargaining power and what the relative importance of the relationship to each party.
- Quantitative assessment criteria are defined in as specific manner as possible and consistent with outsourcing aims, objectives, service level and performance criteria outlined in the tender documentation (Kotabe 1992 ; Mol 2007).
- Each quantitative criterium is given a priority weighting based on agreed weightings signed off with input from senior management and significant stakeholders in the organisation (Durmaz 2008).
- Johnson (1997) argued that it was important to standardise the evaluation process adopting the same weighting criteria format for each supplier, even if not all criteria may apply to all suppliers. Cost of each supplier's tender should be evaluated according to Johnson on a total contract life approach and utilising discounted cash flow techniques to ensure that each cost proposal is expressed uniformly in present value terms. It would follow that the same discount rate is adopted for each supplier's cost proposal. The responses from suppliers will have particular suggestions specific to that supplier. Accordingly, the evaluation instrument should assess the competitiveness of each response in respect to risk sharing, the solution proposed and variations to the terms and conditions (KPMG 1995).
- Incorporate a specific risk assessment component in the evaluation assessment that incorporates all risk actual or perceived identified as part of phase 1 analysis and review (Grigg and Jordon 1993 ; Minoli 1995).

2.7.2.6 Communication strategy to be formulated to cater for management, business units and all stakeholders

Harbinson and Pekar (1998) advised that communication to stakeholders is critical during the tender process notwithstanding that by the time the tender process has commenced both internal and external stakeholders are likely to be aware of the process from media and other avenues. Without a proper communication strategy there is according to them the potential for uncertainty and uneasiness especially among affected staff and other affected stakeholders. Of particular concern according to Trevor (2005) was that employees find out about the tender process from outsiders or other suppliers that they deal with on a day to day basis. Accordingly, Trevor advised that communication of the outsourcing strategy is implemented from the outset and certainly during phase 2. There is some debate as to the form of communication made to stakeholders during the tender and supplier selection phase. In a perfect world communication to all stakeholders would be ideally made at the outset of the process. However according to Walmond (1997) there may be commercial considerations as to why an announcement to the affected employees needs to be delayed either at the tail end of phase 1 or in the early stages of phase 2. Yelland (2006) argued that issues of commercial confidentiality and sensitivity of the outsourcing process to the broader business may create difficulties in communicating the proposed outsourcing process very early on in phase 1. This is especially true if the outsourcing process is according to Yelland (2006) discarded after the completion of phase 1. Communicating this to the broader organisation may in itself cause even greater consternation as many questions would remain unanswered as to why the outsourcing process did not proceed and what it means in the future. However, the literature was clear that there is no excuse or reason to delay the communication of the outsourcing process beyond commencement of phase 2 (Pitman 2000 ; Noble 2003).

A transparent, open and concise communication strategy is recommended by Linder (2004). In particular, the project team via senior management needs to communicate according to Linder the 'why', 'how', 'what', 'when' and where of the outsourcing arrangement proposed. Trevor (2005) considered that employees are more likely to embody the process if the need for change or drivers for outsourcing is explained to them. In addition, Trevor was of the view that an explanation of the options including maintaining an in house solution should be outlined and the reasons for and against each option. Basten (2003) concluded that reducing uncertainty in the minds of affected employees as to why the decision was made to consider outsourcing assists in creating a more cooperative approach by affected employees. Certainly, the announcement of a proposed outsourcing arrangement can create varying reactions

from employees (Opie 1998). Opie believed that the clearer and more time is given to the communication process the better the cooperation from affected stakeholders and therefore less risk to disruption of day to day operations while the outsourcing process is being conducted.

Ultimately according to Corbett (2004) and Pollit (2005) the affected employees are concerned with what outsourcing means to them. Chapman (2003) contended that there are legal and legislative requirements to consider in terms of how the outsourcing arrangement affects employees. Chapman mentioned that apart from financial considerations, employees require knowledge of their options and the extent of assistance the organisation can provide. The timelines of outsourcing need to be outlined as accurately as possible according to Chapman. Once again the emphasis in employee communication is the reduction of uncertainty that may arise as a result of the process. The elimination of employee uncertainty is a key objective in this phase of the outsourcing process (Yourdon 2005). Basten (2003) advised that the project team's communication strategy to employees should consider use of a wide variety of technology relevant to the organisation to get the message to employees. Yelland (2006) recommended because of its efficiency the use of internet based technology to disclose outsourcing status and process to employees affected by the outsourcing arrangement. The attractiveness of using technology such as the internet to communicate progress according to Yelland is that it can be made personal to each employee, receive feedback and provide a record of communication. Pitman (2000) outlined that traditional face to face meetings, interviews, project team presentation to employees and written formal communications are a necessary part of the communication process. It is incumbent on the project team according to Pitman during phase 2 to devise the most appropriate communication strategy adopting appropriate communication modes.

2.7.2.7 Internal review and audit of the supplier responses as to risk factors to consider or mitigate during later phases

Selleck (2005) highlighted that responses received from suppliers will highlight a number of risk issues that may have considered during phase 1 or have been brought to light from the supplier responses. Marcella (1995) considered the importance of internal audit control review during the tender and response process. He believed that the organisation's internal audit department should peruse the supplier response to ascertain whether there are additional risks not considered previously. Of particular concern to him is the security of assets and files plus the integrity of information and data to be processed by the supplier. Risk mitigation strategies according to Marcella should be devised and where the risk that is discovered as part of phase 2 is of a

magnitude that can adversely affect the organisation's ongoing viability then the project team has a duty to inform senior management for deliberation as to the continuation of the outsourcing process or otherwise. The focus on the supplier response should be on feedback and learning in respect to risks according to Duening (2005) and Trevor (2005). Apart from the project team and senior management, the organisation's internal and external auditors may have a part to play in providing feedback and response to supplier proposals. Accordingly, Minoli (1995) believed the internal audit department should sign off risks and audit issues that have been identified as part of the supplier responses. This according to Marcella (1995) is recommended to be completed prior to selection of the supplier. It is argued by him that if the risk issues are not properly dealt with during the early phases of the outsourcing process then outsourcing success could be compromised by taking into later phases of the outsourcing process these significant risks.

2.7.2.8 Adopt a structured tender response verification and supplier reference checking process

Basten (2003) argued that verification of supplier assertions and responses is an important part of the tender and selection process. Dominguez (1996) argued that suppliers are likely to be more forthcoming with information and references during the tender process than at any other time in the outsourcing process. Accordingly the project team according to Dominguez should conduct reference checks as part of this phase of the outsourcing process. Walmond (2000) warned that privacy legislation and trade practices legislation inhibit in Australia the supplier providing details of their past or current contracts without the formal permission of their past or current client. He insisted that all the legislative privacy law clearances should be obtained in advance prior to obtaining references. Where possible the target client reference site according to Walmond should mirror as closely as possible the business and profile of the organisation that is contemplating outsourcing.

Walmond (1997) recommended if possible reference checks should be conducted without supplier involvement or presence. Noble (2003) suggested a structured question and answer template is recommended for effective and efficient reference checking. Inspections of a reference site according to him are considered to provide other evidence as to the performance of the supplier with a past or current outsourcing contract, especially where the supplier is responsible for maintenance of the asset or facility. Trade references, public court judgement details and credit reference records are able to provide independent data on the supplier financial standing notwithstanding that financial accounts and other information is usually provided by the supplier (Milgate 2001 ; Trevor 2005).

Walmond (2000) advised that a verification review is conducted on each supplier's response. This entails according to him reviewing each major assertion as to capability and performance and then detailing the evidence that the supplier has provided to substantiate the assertion or undertaking in the tender response documentation. Where the evidence has not been provided by the supplier, Walmond advised that the supplier is asked to provide further details or explanation. Of particular concern is demonstration that the supplier's systems can process the required data. This evidence could entail file and system dumps of live data run for existing suppliers, independent quality control reports and audit of systems, files and data integrity conducted for other clients that have similar contractual arrangements as proposed. The basis of this approach according to Walmond is to ascertain and verify the reliability of the supplier's responses. Pitman (2000) contended that the verification process during the tender phase of the outsourcing process is directed to establishing the reliability of some of the major assertions outlined in the supplier's response to the request for proposal. He argued for concentration on the main key assertions made by the supplier. White and James (1996) believed that there are cost/benefit considerations that need to be considered to ensure that management time is best utilised to concentrate on the critical assertions that affect the major services to be delivered by the supplier. This would indicate according to White and James that there is a risk that some other issues with the assertions made by the supplier may not have had detailed scrutiny or detailed overview but in the overall priority and importance these assertions have less effect on the performance of the outsourcing process.

2.7.2.9 Service delivery expectations and performance standards to be clear and precise in tender documentation

Gartner Group (2007) believed imprecise or otherwise improper service delivery expectations within the request for proposal documentation is a major shortfall in the final delivery of a workable outsourcing arrangement. It follows according to Gartner that if the supplier is confused about the service delivery expectations and performance standards, then the supplier response or understanding may be at odds with the outsourcing objectives, aims and scope desired by the organisation. A similar approach to service delivery expectations was outlined in Rasila and Gersberg (2007) and Koulopoulos and Roloff (2006).

Unit (1995) and Pitman (2002) argued that ensuring that service delivery expectations and performance standards are clear and precise need to be checked against the agreed organisational aims, objectives and scope signed off as part of the business case in phase 1. The delivery expectations and performance standards embodied in the request for proposal or tender documentation must have buy in from all affected

stakeholders not just senior management and the project team (Corbett 2004 ; Jones Lang Lasalle 2006). The failure to do this according to Corbett may comprise the working of the outsourcing arrangement in the transition phase (phase 3) as affected stakeholders may argue that they did not agree with the performance standards or that the arrangement was thrust upon them. Durmaz (2008) highlighted that stakeholder input into performance standards would have been derived early in the outsourcing process most likely at the time the business case was written. This ensures that if there are any disagreements on performance expectations they can be resolved within the organisation and not as part of the tender or later stages when it may more costly or troublesome, especially if the supplier has organised resources to meet the service standard it believed were those required from the organisation.

In addition to obtaining broad stakeholder acceptance of the proposed service standards, the tender documentation needs to frame the specifications of service standards and performance adopting:

- Relate the service standards to desired scope, aims and objectives of the outsourcing arrangement (Lacity 2009 ; Corbett 2004)
- Adopt recognisable industry terms and jargon. Where the organisation adopts other terminology specific to the organisation, the documentation needs to outline clearly the meaning and usage of the terms and jargon particular to it. Clear definitions of acronyms used by business units need to be spelled out and defined in the tender documentation (Burnett 1998)
- Quantitative measures must be expressed in consistent terms and in units consistent with the measure. Tolerance limits where relevant should be given in the same unit or measure. For example, those standards that require time or date measurement standards should be separated from other quantitative measures that require other units of measure such as monetary amounts (Pitman 2000)
- Critical performance standards and service requirements required as a result of legislative or other business imperatives need to be clearly identified separate to other requirements (Mol 2007)
- Performance standard and service delivery requirements need to be linked to rewards and penalties. Suppliers will concentrate on those delivery standards that attract a reward or if relevant a penalty. This follows that service standard requirements need to be prioritised in terms of importance as to which attract rewards or penalties. The request for proposal or tender document has the important task of directing suppliers to what is important and critical to the outsourcing arrangement (Milgate 2001)

2.7.2.10 Address audit concerns based on supplier responses to the tender process

Johnson (1997) contended that supplier responses to the tender will confirm prior risk issues and highlight some new risk issues of concern to the organisation's auditor. Marcella (1995) cautioned against the project team not reviewing the outsourcing risk profile derived at the outset of the outsourcing process in the light of information obtained from the supplier responses during the tender process. Principally the main audit risk areas to address according to Marcella in the light of supplier responses are:

- Overall capability of suppliers not in accordance with earlier expectations of minimum standards or skill and expertise level low in several critical service areas. This is not limited to supplier expertise and may include supplier culture and management capabilities that are at odds with the culture of the organisation
- Security of assets, files and confidential information transferred to the supplier
- Unforeseen human resource issues that need addressing prior to implementation of the transfer of inhouse staff to the control of the supplier
- Incompatible service standards and performance expectations of critical performance criteria that may not be met by the supplier
- Potential to breach legislative and industry requirements that may result as a consequence of implementing the outsourcing contract.
- Risk mitigation or contingency strategies contemplated by the organisation to counter a poor performing contract not considered to be of a magnitude that can counter the risk(s) identified.

Risk management is an important part of the outsourcing process. Williams (1998), Bellin (1995) and Brown (2005) considered that the project team's key task was to assess the risk of outsourcing to the organisation's ongoing well being. Accordingly Bellin believed that the project team as part of its recommendation has a duty to assess and reassess risks of choosing both outsourcing as an option and then the particular supplier selected. In addition, he cautioned that it is possible that vested interests will influence the outsourcing process at each stage of the outsourcing process, especially in the early phases. Bellin recommended that the project team is required to quantify in monetary terms or other objective measures as relevant the extent of potential loss to the organisation. In addition, the risks of other options to outsourcing should be considered and evaluated according to him on a quantitative basis to assess the relative measures of the risk(s) identified. Marcella (1995) considered that risk is not ever eliminated in the outsourcing process and the decision to ignore outsourcing based on risks that may be only in the mind of the project team

could result in a suboptimal decision to the organisation. He suggested that the risk analysis and evaluation should be reviewed by an independent party not aligned to the project team or one of the key stakeholder units affected by outsourcing. Marcella assessed that in the case where an external consultant is engaged to assist the project team, the external consultant will independently review the risk issues gained from evaluating supplier responses to the request for proposal submitted by suppliers. In the absence of an external consultant, Marcella suggested that the independent review will be the responsibility of the organisation's internal or external auditor.

2.7.2.11 Adopt a 'win-win' approach to negotiations during the tender process

Aalders (2001) emphasised that the negotiation process can set the alliance or partnering approach to any outsourcing arrangement that is implemented. A 'win-win' approach according to Aalders is considered the most optimal negotiation strategy in determining the final contractual terms and conditions of the outsourcing arrangement. Each party will come to the negotiation table with differing agendas, aims, objectives and bargaining positions. A bitter prolonged negotiation process can impede the future operation of the outsourcing arrangement. Building of trust and rapport is a major part and objective of the negotiation process according to Aalders.

Trevor (2005) suggested that ideally one person to act as a negotiator is appointed on behalf of the project team. Pitman (2000) stated that this person can be the project leader but not always if another is deemed more suitable. Walmond (1997) urged the appointment of one negotiator from the project team who has defined discretions and allowances in negotiating with the prospective supplier. He added further that an organisation that has outsourcing expertise as one of its key managerial competencies is likely to have persons experienced in developing 'win-win' negotiation outcomes in a tender process.

A 'win-win' negotiation outcome required according to the literature demonstrates the following activities and attitudes throughout the negotiation process:

- Consensus approach that is 'give and take' on minor items of negotiation and not bogged down on point scoring or grandstanding (Milgate 2001)
- Not bickering over small points of difference in the proposed contract (Rothery and Robertson 1996)
- Demonstrated risk/reward sharing by both parties as part of the final terms and conditions forming part of the final agreement (Lendrum 2000)
- Open, transparent and timely disclosure of information by each party to the other (Duening 2005)

- Adopt plain English drafting of contract conditions that limit uncertainty or confusion as to the proposed scope, aims and objectives of the contract (Burnett 1998)
- Tolerance setting for service standards, provide for grace periods and allowances in respect to service delivery standards throughout the documentation terms and conditions in respect to triggering of penalties in the contract (Pitman 2000)
- Provide for an ability to vary the contract in the future for major, material and unforeseen changes in circumstances that adversely affect one of the parties to the outsourcing arrangement (Cullen and Willcocks 2003 ; Corbett 2004). This is important to Corbett as neither the organisation nor the supplier can predict future outcomes or conditions that may affect the ability of either party to perform under the contract. For example, Basten (2003) considered that a supplier will feel the contractual arrangement is harsh if it has to meet the cost of implementing any changes due to legislative or other factors not known at the time the contract was signed.

2.7.2.12 Timeliness and ethical behaviour in making and advising decision to suppliers

Johnson (1997) advised that outsourcing as a process can be delayed for various reasons outside of the control of either supplier or organisation. The main deliverable of phase 2 is the choice of a suitable outsourcing party to perform outsourcing activities. Each outsourcing arrangement has its own circumstances and requirements in respect to time taken to select a suitable supplier to provide the outsourcing contract (Corbett 2007). However, Linder (2004) concluded that timeliness is one of the key requirements in ensuring ongoing supplier commitment to the process. This is because suppliers will not wish to expend resources and allocate dedicated project teams to the tender for long periods of time. Tenders vary in duration according to Linder. However, the organisation as part of the tender process is advised in Mockler (2000) to disclose to tendering parties the steps and proposed timetable for a decision to be made. Notwithstanding slippages in time can occur, suppliers can plan properly for the tender process based on the timetable proposed by the organisation at the outset. The onus according to Mockler is on the organisation to inform the suppliers tendering if the proposed timetable is likely to slip beyond the due date proposed as the start of the tender process. He cautions that a long protracted outsourcing process can sap supplier confidence in the process or at worst discourage supplier participation.

Many large scale outsourcing especially in major corporate real estate outsourcing tenders are likely to have significant media exposure (Walmond 1997). Media scrutiny

as to conduct of the outsourcing process is expected and needs to be taken into account in dealings with suppliers (Gartner 2007). Therefore unless properly accounted for, Gartner warned that organisations can suffer serious damage to their reputation and standing in the community if the outsourcing process is deemed by the general public to be conducted otherwise than ethically both in substance and appearance. Moreover, Gartner considered the consequences that suppliers may walk away from the tender process if they deem the process to be other than ethical. The consensus from Trevor (2005) is that an outsourcing ethical process has some of these attributes:

- Similar opportunities are available for each supplier to present its case to the organisation
- Questions of a general nature from suppliers are shared to all tenderers. Supplier questions pertaining to their own tender are not shared, except to where the question opens up issues of confusion or uncertainty in respect to the tender documentation issued to each tenderer
- A detailed file record is made of supplier interaction during the tender process

Over the last ten years, Australian state and federal government departments have appointed an 'ethics compliance officer' to monitor the outsourcing tender process for the more high profile outsourcing contracts (Basten 2003 ; DOFA 1998). In the private sector, external legal firms specialising in outsourcing contracts have offered a tender process overview as part of their assistance with drafting the outsourcing contract (Ventralla 1994). The literature indicates a need for some type of independent overview and certification as to the conduct of outsourcing tenders especially of a larger monetary value and public profile.

2.7.2.13 Simple plain English worded contract specifying contract terms and conditions in a clear manner

Imrie (2000) stressed that the outsourcing contract has importance as the document that will be referred to in case of dispute and throughout the life of the outsourcing contract as a reference for the rights and privileges pertaining to each party. Corbett (2007) acknowledged that a good outsourcing arrangement needs little reference to the contract whereas a poor outsourcing arrangement has the contract and its terms and conditions as the main day to day interaction of supplier and organisation where each argue as to what is 'in scope' and what is 'out of scope'. Yet even in the best managed and performing outsourcing arrangements, the contract still has an important purpose during the life of the outsourcing contract. Despite the best intentions of the parties, disputes will occur and Brown (2005) confirmed the importance of the contract in resolution of any dispute. Also according to Johnson (1997), the persons involved in drafting the contract may not be at either the organisation or supplier throughout the life

an outsourcing arrangement. This means that contract must be drafted in a manner that is written in plain English, clear and concise as to terms both in form and spirit.

A properly drafted outsourcing arrangement will consider the main areas identified in Heywood (2001), Burnett (1998) and Ventralla (1994) as potential risk areas in the drafting of an outsourcing arrangement if not drafted correctly. As much as possible within the format of the documentation, these areas should occupy either a separate or prominent part of the outsourcing contract. The areas referred to in Burnett for incorporation into an outsourcing contract are:

- Scope, aims and objectives of the outsourcing arrangement
- Statement of partnering principles as the basis of the arrangement
- Specific organisational data relevant to the contract including specifying gaps in information to be listed as an appendix to the contract
- Services to be provided as part of the outsourcing arrangement
- Service standards and performance objectives
- The contract monetary value expressed in clear terms with any performance bonuses or benefits expressed separately to any base contract amounts payable to the supplier.
- Contract monetary sum escalation procedures and manner of review
- Performance rewards and basis of review where applicable
- Dispute and conciliation procedures
- Variation of contract rights available to each party during the term of the contract
- Penalties for non performance of contract terms and conditions
- Termination events, rights and obligations of each party
- Rights of each party at expiry of contract
- Risk/Reward sharing table outlining risks to be borne by supplier and risks to be borne by organisation

Ventralla (1994) acknowledged that the outsourcing contract is a document constructed at a point in time and based on information and circumstances applicable at that time. It is likely according to Ventralla that over the life of the contract that circumstances will change that make the original deal in need of revision as the risk/reward sharing profile and performance rewards standards are unworkable. Focus on contractual risk/reward sharing and setting rewards for exceeding performance comprise an important part of the negotiation and contract setting process according to McIvor (2005) and Lendrum (2000). They believed that this assisted the supplier's motivation in meeting performance standards outlined in the outsourcing contract. The proper handling of

risk/reward sharing between the supplier and organisation is deemed important to the finalisation of a workable outsourcing arrangement.

2.7.2.14 Focus on risk/reward and rewards for bettering set performance standards in the outsourcing contracts

The setting of a proper and fair risk and reward between the parties in the outsourcing contract assists in a more conducive outsourcing arrangement (Johnson 1997). Johnson suggested that a risk/reward table is attached as an appendix to outsourcing contracts. Pitman (2000) stated that a risk/reward sharing table is designed to allocate risks to each party that either solely or in part are the responsibility of that party. He gave the example where organisation staff members are transferred to the supplier, it is usual for the supplier to assume responsibility for union and work place agreements pertaining to those staff members on commencement of the outsourcing arrangement. Therefore the supplier would be at risk in the case of upward price movements due to collective bargaining agreements negotiated with the relevant union representing those employees. In contrast Trevor (2005) indicated that the risk reward sharing table in the contract will typically show that the organisation is responsible for changes in scope due to changes in industry practices or government legislation affecting the organisation's business. Negotiation of the risk and return sharing table is not a precise art. Basten (2003) offered some advice on allocating risks between the parties. He argued that the risks that would normally be met by the organisation that are particular to the business and industry should continue to be met by the organisation. However in practice this is easier said than done as some particular risks cannot always be neatly categorised strictly between the supplier and vendor (Jenson 2005). A degree of fairness and desire to achieve a win-win approach is important for both parties (O'Malley 2001). If one of the parties is forced to accept a risk which it considers unreasonable then the outsourcing arrangement may be compromised to begin with according to O'Malley. He added that the danger of a supplier forfeiting the contract because the contract is financially unviable is a real risk if all monetary risks in the outsourcing arrangement are left with the supplier. On the other hand he argued that the organisation needs to know that the outsourcing arrangement has defined risk boundaries that can be costed as best as possible in to its business case and in estimating the total cost projected over the life of the contract. The division of risk responsibilities between the parties in any outsourcing contract appears unresolved in the literature. Burnett (1998) believed that the risk and reward sharing considerations within the contract are still a difficult part of the outsourcing process without any clear direction as to how to resolve equitably between the parties.

Rewarding performance in an outsourcing contract is an unresolved segment of the outsourcing literature. There are various approaches as to how performance criteria should be set and measured. Some commentators (O'Looney 1998 ; Duening 2005) believed reward setting is a difficult and consuming process where the focus should be on ensuring the base services in the outsourcing arrangement are provided as a priority and not reward for performing other services that are additional or ancillary beyond delivery of base services as outlined in the contract. They point to the difficulty of setting performance criteria and associated rewards to make a difference to outsourcing performance. Other commentators (Pitman 2000 ; Noble 2003) were adamant that performance criteria as long as they are set at an achievable standard form part of the incentives to encourage supplier performance at the maximum level possible beyond delivery of base services.

There is general agreement that where performance and reward standards are adopted within the contract that the bar should not be raised so high that the supplier is unable to meet them (Gartner 2007). Another requirement in Gartner is that a proper metric is agreed to be used for performance measurement of each specific performance criteria. Gartner (2007), Hayes (1999) and Domberger (1998) suggested that this process is not as simple as it appears and only a limited number of performance metrics could be reliably measured. These included according to them a number of performance metrics (for example expressed in time, money, volumes) that they thought could be conceivably used to measure the same performance criteria. In addition, performance metrics involve quantitative and qualitative measures. It is conceivable according to Aalders (2001) that a supplier may meet some or all of the quantitative metric measures but fail quantitative measures set for that service such as measuring intangible criteria relating to customer or stakeholder satisfaction to the outsourcing arrangement. Lendrum (2000) and Lonsdale (1998) stressed that agreement on the performance criteria and metrics is a necessary first step of establishing performance reward provisions within the contract. For the organisation, they stated it is critical that the performance criteria is measured adopting measures consistent with the scope, objectives and aims set at the outset for the outsourcing arrangements. Accordingly, they argued that the performance criteria and measurement metrics would be in line with the needs and service standards required by the main stakeholders affected by the outsourcing arrangement. In simple terms, the metrics and performance measurement must relate to measuring whether the objectives and aims of the outsourcing contract have been achieved.

Put simply, a successful outsourcing contract is one where the contract is filed away and not referred to because the parties have a clear understanding of its underlying terms without need to refer to the contract continually for guidance (Burnett 1998). This demonstrated according to Burnett a partnering and alliance culture compared to an adversarial culture that focuses on what is 'my responsibility' and what is 'your responsibility' within the contract. Lendrum (2000) advised that it is important that the organisation and supplier conduct the contractual negotiations in as amicable and professional manner as possible. Milgate (2001) warned that terse and bitter negotiations may create lingering mistrust and ill feeling between the supplier and the organisation. This according to Milgate is evident especially if one of the parties believes it has been hard done by. Continual focus on price or endless point scoring can create a poor working culture that may be hard to rectify during the later stages of the outsourcing process according to Pitman (2000). Therefore Pitman stressed that the principle of fair and just treatment of each party in the contract negotiations is an important principle at this phase of the outsourcing process.

Burnett (1998) contended that while the outsourcing contract is a legal document, it serves to achieve other objectives that assist the outsourcing process. Each outsourcing contract has its own legal requirements to fulfil given the nature of the business and industry (Bragg 2006). It is not the place of this research to focus at length on the legal requirements of outsourcing contracts other than referring to the importance of legal issues in the determination of a suitable outsourcing arrangement. Johnson (1997) pointed out that every outsourcing arrangement will have its own peculiar circumstances that need to be drafted in a final contracted agreement. The literature has offered a number of draft outsourcing templates and agreements. These draft templates are viewed as indicative and cover the legal requirements of a particular industry and not usable as a general template (Walmond 1997 ; Majjar 2003). Legal structure of an outsourcing contract is important according to Burnett (1998). Yet there are clear contractual principles that are consistent with outsourcing contracts more favourably attune to outsourcing success. A review of the literature identified that an outsourcing contract requires several attributes to build adequate corporate governance within the arrangement and engender a culture of engagement and partnering as key traits of the outsourcing arrangement. Some of these necessary outsourcing contractual attributes identified in the literature are:

- The contract focuses on outsourcing objectives, aims and scope and all contract provisions can be evaluated as to whether they are consistent with the outsourcing objectives, aims and scope set by the organisation (Opie 1998)

- Plain English format with all terms defined in a consistent manner and considering outsourcing objectives and risk reward sharing principles (Oates 1998)
- The contract is not rigid and has provisions to allow for changes in objectives, aims and scope of the outsourcing arrangement as circumstances may change (Kendrich 2009)
- The services, service delivery and performance standards are clearly defined in separate sections in the contract (Corporate Executive Board 2002)
- A risk reward table or risk sharing table is embodied within the document and the document is consistent with its provisions reflecting the risk reward regime proposed by supplier and organisation (Noble 2003)
- Continuous improvement provisions and outlines how this may be achieved throughout the outsourcing term (Lendrum 2000)
- Effective communication principles between organisation and supplier (Linder 2004)
- Dispute resolution regime which focuses on mediation and resolution between the parties at the source of the dispute then escalating to senior management or formal dispute resolution (Rothery and Robertson 1996)
- Corporate governance principles embodied within the contract (Johnson 1997)
- Relationship management principles within contract focus on partnering and alliances (outlining suitable discretions and delegations) (Desai 2009)
- Pricing and performance reward principles to be clear and concise with provision for flexibility to vary if circumstances change according to some risk and reward principles set (Aalders 2001)
- An understanding that the contract is for a defined term and the contract must provide proper provisions to handle termination and other contingencies that may impact on the continuation of the outsourcing arrangement (Burnett 1998).
This is further discussed in the section below.

The outsourcing contract is an important legal document. However, the manner in how the contract is negotiated is also important to start off the relationship in the right manner (Desai 2009). Also there are some principles as outlined above which assist in building a more workable, ethical and partnering approach to the relationship between supplier and organisation. Nevertheless, any contractual agreement has an end date and its ability to clearly outline the expiry process is an important criteria.

2.7.2.16 Contract penalties, termination provisions and contingencies are clearly defined in the contract

Booth (2010) stated that no outsourcing arrangement should be without expiry date or without a proper termination or renewal mechanism. Accordingly, Booth believed that the contract should provide for a process to terminate the contract either at expiry or for poor performance prior to the expiry of the contract. Otherwise he believed that the organisation's options at expiry may be compromised. Marcella (1995) concurred that the focus is on minimising risk and cost of terminating the contract. Bragg (2006) identified that the outsourcing contract needs to provide for cooperation so as to ensure files, data and information are transferred in a timely manner by the supplier either back to the organisation or to a new supplier. Every outsourcing contractual arrangement has its own termination and contingency provisions (Oates 1998). However for Oates the main consideration for the organisation is that the contract is drafted in a manner that minimises risk in terminating the contract or otherwise dealing with a contingency that could adversely impact on the ongoing viability of the organisation. Moreover, White and James (1996) referred to three questions that in their opinion the contract needs to consider when dealing with terminations, contingencies and expiry of contract. These questions are:

- Can the organisation get out of the contract in an efficient and effective manner?
- What are the risk issues on termination and how are they covered in the contract?
- What incentives or penalties does the supplier have as part of the contract conditions to cooperate in a contract termination or contingency situation?

According to White and James these general questions assisted in ensuring that the contract provides provisions for dealing with termination, expiry and dealing with contingencies in the contract. Allowing for these questions ensures that the organisation is not compromised adversely when dealing with the requirements of the final phase of outsourcing (phase 5) according to White and James.

Penalties within an outsourcing contract have received significant attention in the literature. For many suppliers, the issue of penalties in an outsourcing contract is a major concern. Differing views exist in the literature as to the severity and the nature of penalties in an outsourcing contract. However, some consistent approaches in the literature to penalties in outsourcing contracts have outlined that:

- Penalties should be fair, equitable and properly defined (Desai 2009)
- Penalties should mirror accountabilities and responsibilities of each party (Trevor 2005)

- Penalties should be directed to provide incentives for the supplier to reduce actions that increase risk in the outsourcing contract (Johnson 1997)

Penalties within the contract have the potential to create a lot of angst in the relationship between supplier and organisation and accordingly should be framed so not to focus on 'nit picking' (Basten 2003). The aim of penalties within the outsourcing contract is to direct the supplier for positive reasons so as to focus on service delivery and ensure compliance for actions that may be incompatible to supplier needs in the event of say termination of contract (Pitman 2000). However the issue of penalties in an outsourcing contract as to severity and how the penalties are to be structured in the contract is an unresolved matter in the literature.

2.7.2.17 Communication of the transition process to affected stakeholders within the organisation once the tender is awarded

Walmond (2000) cautioned that at the time of awarding the tender to the successful supplier, there is likely to be a ground swell of confusion, apprehension and various other emotions from affected staff in particular. In addition, Walmond was of the view that the stakeholders who have not been part of the outsourcing process could have perceptions or misconceptions as to the process that may differ from the reality of the situation. A clear and concise communication strategy is therefore according to Walmond necessary at this time to alleviate any apprehension or confusion as to the process and its effect on all affected stakeholders. This was also consistent with the view of Lendrum (2000) who also believed that feedback to stakeholders needed to be part of the communication process and performed as soon as the tender is awarded to the successful tenderer. He stated that feedback principles need to be built into any communication strategy to ensure that all stakeholders have a chance to voice their concerns. Burnett (1998) cautioned that sometimes communication is required by law as some labour agreements require affected employees to be informed within a set time period after the outsourcing arrangement is in place. Trevor (2005) advised that legislative and union based work place agreements may impact on the way the affected staff are treated and managed. The communication strategy according to Trevor should be consistent with the communication strategy required in any industry award or work place agreement where one is specified. In some of these workplace agreements, employees are required to be given certain notice periods and documentation to allow them to form a decision as to aspects of any transfer to a supplier as part of the decision to outsource (Burnett 1998). In addition, the literature has outlined the importance of a proper communication strategy at the time the tender is awarded and announced is to:

- Introduce the supplier to the broader organisational and build rapport between supplier and affected organisational staff who are likely to be transferred to the supplier (Milgate 2001)
- Address any misconception held by affected employees as to the outsourcing process (Noble 2003)
- Communicate in a manner that creates from the outset a close working environment between supplier and organisation (Hirschheim et al. 2009)
- Confirm ongoing management support for the outsourcing process (Dominguez 2006 ; KPMG 1995)
- Outline the outsourcing transition process, especially proposed deadlines and timelines that may affect staff and other organisational stakeholders (Lendrum 2000)
- Announce the appointment of an outsourcing transition team and transition team leader (DOFA 1998)

2.7.2.18 Appoint an outsourcing transition team and a transition leader

Trevor (2005) argued for a transition team consisting of organisation and supplier representatives to be appointed at the time the tender is awarded. Trevor suggested that the organisation should appoint a transition team leader who is likely to be the ultimate relationship manager of the outsourcing contract on behalf of the organisation. A poor transition can compromise the outsourcing arrangement according to Trevor. Therefore an able transition team leader is critical. Johnson (1997) concluded that the transition team leader requires the following skills and attributes:

- Excellent project management skills
- Strong knowledge of the business and industry experience relevant to the outsourcing contract
- Ability to engender support from all levels of the organisation to the transition process
- People handling skills
- An understanding of alliance and partnering philosophies
- Ability to delegate and focus on key priorities
- Problem solving and dispute handling skills

2.7.2.19 Acknowledge and deal with culture differences between organisation and supplier

Opie (1998) stated that the transition team represents the first opportunity for supplier and organisation to work together in a meaningful way. Cultural differences according

to Opie are likely to arise and need to be addressed as early as possible. Therefore Opie advised that a key role of the transition team leader is to address these cultural differences between supplier and organisation and work with them rather than ignore them. Lendrum (2000) concluded that cultural differences between organisation and supplier are not necessarily bad or restrictive. Others (Tho 2005 ; Frenza 1999 ; Howarth et al. 2000) have a viewpoint that change management is assisted by cultural differences and should be embraced as part of the benefits of the outsourcing arrangement by stimulating new ideas and innovation. Yelland (2006) believed that a key role of the transition leader is to nip in the bud organisational attitudes of 'we have always done it this way'. Therefore the transition team leader according to Yelland has to address attitudes within the organisation that inhibit change or desire to work within the framework and organisational style of the supplier who ultimately is responsible for delivering the service.

2.7.2.20 Relationship to other phases

A review of the literature has highlighted a number of key issues and deliverable from phase 2 to the success of the outsourcing arrangement. Phase 2 has importance for all three subsequent phases. The first meaningful interaction between supplier and organisation takes place in phase 2. This is the first opportunity for both parties to develop the start of a partnering and alliance relationship. The supplier is selected during phase 2. If the wrong or inappropriate supplier is selected then phases 3 and 4 are likely to be compromised irreparably. Even if the appropriate supplier is chosen, the outsourcing contract is important as a working document relevant to future stages. For example, if the contract is rigid and inflexible then this may limit the ability of issues and problems discovered during phases 3 and 4 to be addressed properly. Also, if the contract conditions do not provide properly for termination and contingency provisions then phase 5 (contract expiry) activities are likely to be compromised.

2.7.2.21 Preparing for the next phase and conclusion of Phase 2

In preparation for phase 3 (transition phase), phase 2 has produced the following deliverables being:

- A supplier is selected in respect to the proposed outsourcing arrangement
- A suitable outsourcing contract has been executed with the supplier
- A transition team has been formed
- A transition team leader appointed
- An initial transition program has been created

By the time phase 2 is complete, many risk issues and mitigation strategies have been identified. Supplier selection risk in particular has been a major risk factor to deal with. While various evaluation strategies have been suggested, supplier selection risk can never be eliminated. Accordingly, the outsourcing contract remains an important item in the outsourcing process. The reality of the outsourcing arrangement is now upon the stakeholders and broader organisation. Suitable communication strategies have been devised to assist the affected employees and other stakeholders deal with the proposed outsourcing arrangement. Environmental and legislative issues have been considered. The next challenge in the outsourcing process is to ensure that the transition from in house operations to an outsourced operation is performed as smoothly and effectively as possible.

2.7.3 Phase 3 : The Transition Phase

Imrie (2000) confirmed that transition phase is the last opportunity for the organisation and supplier to address risk issues prior to the outsourcing arrangement going live. Walmond (1997) was more forthright when he considered a poor transition would adversely affect the outsourcing arrangement. From the discussion relating to phase 2, the transition team will have been formed prior to the commencement of the transition phase.

The transition phase is the most critical phase of the outsourcing process according to Public Service and Merit Protection Commission (1996). If phase 3 is poorly implemented, then the ultimate success of the outsourcing contract could be adversely affected (Pitman 2002 ; Williams 1998). Taplin (2009) considered that handling human resource issues, testing and refining supplier system capabilities and finalising paper file and information system data transfers are critical activities during phase 3. Lendrum (2000) stated that the amount of work performed during the transition phase is largely driven by cost/benefit considerations.

Oates (1998) warned that the transition phase of an outsourcing arrangement is a critical part of the outsourcing process and should be properly resourced. KPMG (1995) cautioned that management of the existing in house operations and dealing with affected staff and suppliers were key areas of concern during the transition phase. The literature identified existing staff and supplier management as key risk areas in the process to outsourcing (Johnson 1997). Some commentators (Martin 2008 ; Kendrick 2009 ; Corbett 2004) saw the transition to outsourcing as the phase which may determine the success or otherwise of the outsourcing arrangement. During this phase, reporting requirements, file and data transfers are key activities were key matters to consider according to Corbett. System compatibility issues between supplier and client

systems need to be addressed during the transition phase (KPMG 1995). Also according to KPMG (1995), the supplier and client would jointly test supplier's systems and work processes ahead of going 'live'. Further KPMG (1995) considered that the level of testing would depend on a number of factors such as the quality of the supplier's internal system controls. Marcella (1995) stressed the need to conduct detailed audit and due diligence procedures on the supplier's systems during the transition phase of the outsourcing arrangement. Further, Marcella also articulated that the amount of data testing and systems audit work conducted during the transition phase will be subject to cost/benefit factors and it was these cost/benefit considerations that will need to be carefully considered as part of the research.

Key activities particularly relevant to phase 3 would include:

- Enforcing the accountability of the transition team comprising representatives of the entity and the supplier to report to respective senior management of the organisation and supplier. (Basten 2003)
- Developing a transition program and timetable. (Williams 1998)
- Addressing staff and human resource issues in a timely and fair manner. (O'Looney 1998)
- Dealing with any existing suppliers affected by the proposed outsourcing arrangement (MOPC 2000)
- Managing any asset, data and file transfers carefully and efficiently (Dominguez 2006)
- Maintaining an open and timely communication strategy (Patel and Aran 2005)

The transition phase has a number of key success factors, guidelines and approaches which the literature has mentioned as critical. These are outlined below.

2.7.3.1 Establish a workable transition program with defined timelines and milestones

Lendrum (2000) stated that the initial task of the transition team is to create a workable transition program with defined tasks and timelines. This has been established in a prior section of this chapter to have most likely started at the tail end of phase 2. However setting timelines is not a perfect art. It is possible according to Johnson (1997) that the timelines initially proposed at the tail end of phase 2 for the transition phase is with further consideration no longer feasible. Therefore Johnson recommended that the transition team needs to carefully consider the transition program taking into account the possibility of delays and blockages that may blow out the timetable. However the timetable should not be the only concern. There is often a focus on delivering timelines rather than focus on achievements of transition progress. Walmond (1997) contended that an achievement focused transition program is likely to

be more effective as strictly set timeline programs are bound to be delayed and affected by factors not under the control of the transition team. Therefore the compromise according to Walmond would appear that the milestone is set with a target date that allows for slippages and any unforeseen matters to address along the way. Pitman (2002) stressed that the credibility of the transition team nevertheless evolves around the team's ability to meet the milestones set within acceptable timelines. Often the timelines according to Pitman are set out of necessity or circumstances and the transition team has to work within the timelines set. This makes the program somewhat more difficult to achieve. However, the principles of proper task setting, prioritising the tasks and monitoring the transition do not change and the transition team has the ultimate accountability for delivery of a successful transition to the outsourcing arrangement (McIvor 2005 ; Howarth et al. 2000).

Senior management support to the transition process is an essential requirement. Noble (2003) believed that senior management support during the transition phase may be even more critical than earlier phases of the outsourcing process as any blockages to the transition process may result in additional costs and/or delays to final implementation of the outsourcing arrangement. Williams (1998) outlined that sufficient monetary resources are required to be allocated by senior management for a successful transition process. Moreover he stated that if properly provided with the appropriate resources, the transition team will have a better chance of acquiring support and assistance of other areas of the organisation. This may require senior management support for the transition program and direction. However as outlined in Aalders (2001), the ability to meet the milestones and timelines set by the transition team is a key requirement to ensure ongoing senior management support to the transition process and enable organisation resources to be acquired for the transition process. This would indicate that the transition team is likely to maintain senior management support on the proviso it is meeting its stated targets, milestones and deadlines.

2.7.3.2 Establish communication channels during transition phase

Barrett (1995) was of the view that transition is a difficult and time consuming process. Linder (2004) outlined that many areas of the organisation including a variety of personnel allocated to participate in the outsourcing process will be involved in the transition phase and accordingly the need for a proper communication strategy during this phase is critical. Just as critical is to establish proper communication channels that define the purpose and scope of the communication about the transition process (Harney 2002 ; Yourdon 2005). However there may be limitations to the communication process. The communication channels according to Williams (1998) need to take into

account the confidentiality of the information to be transmitted and the needs of the recipients and their role in the outsourcing arrangement. Information should be transferred to relevant parties according to Williams through specific communication channels using appropriate media of various types including internet. The communication needs of shareholders within the organisation will depend on their involvement in the outsourcing process. Williams added that consideration needs to be given to the manner in which to disseminate information to ensure it is done in as timely manner as possible. Therefore one of the initial tasks of the outsourcing transition team is to ensure that a proper transition communication strategy and plan is implemented at the outset.

2.7.3.3 Transition team to build a partnering and alliance mindset between supplier and organisation key staff in outsourcing contract

Transition to outsourcing is where the 'rubber meets the road' (Pitman 2002) and accordingly the broader organisation and especially those organisational stakeholders affected are likely to have their own beliefs about what is going on and how the arrangement should be structured. This can create friction within the organisation and with the supplier. It is the transition team's role to develop a partnering and alliance approach with the supplier (Lendrum 2000). This is done according to Lendrum by encouraging actions that develop partnering and alliance practices. Other commentators have offered other suggested ways to create a partnering and alliance approach. For example, Lendrum contended that joint training of supplier and organisation representatives during the transition stage is an effective way of learning and appreciating differences in culture. Joint presentations by supplier and organisation representatives to organisational senior management are another way of building partnership and alliance rapport (Walmond 1997).

Outsourcing contracts typically involve the transfer of in house staff to the supplier (Desai 2009). Desai suggested that cultural differences between supplier and organisation are likely to exist for a number of reasons and outside of the control of organisation and supplier. Accordingly, the transition team needs to address how cultural differences can be catered for and addressed for the benefit of the outsourcing arrangement (Lendrum 2000). KPMG (1995) has suggested that training and educating the outsourced staff in the supplier's systems and organisation practices are a key means of dealing with differences in culture and work practices. Therefore a main transition task is to ensure that staff members to be transferred have a good grounding in the supplier's systems and work processes. Basten (2003) viewed the training and 're-education' of staff transferred to the supplier as some of the more poorly handled tasks in the outsourcing transition phase. Similarly Rothery and Robertson (1996)

advised that sufficient training is undertaken to ensure that the remaining employees (non outsourced employees) have the necessary skills and training to handle the outsourcing contract. Rothery and Robertson were concerned that a new skill set may need to be learned by staff remaining with the organisation to handle the demands of an outsourcing arrangement. This is not as easy as it appears as past habits are not easily changed. Walmond (2000) believed that there is a tendency in some outsourcing arrangements for some employees to want to work as previously and want to 'do' or deliver the services now outsourced instead of managing the outsourcing contract along the lines required. Therefore the transition team according to Walmond needs to evaluate the personnel who will manage the outsourcing arrangement and ascertain the level of education and training required for them to act as effective outsourcing managers. For organisations that have outsourcing as a key organisational competency this is likely to be easier. However for organisations who do not have experience with outsourcing this process is likely to take more time. Despite the difficulties Walmond believed that ascertaining the level of training and up skilling for employees transferring to the supplier was a key factor in the transition phase of the outsourcing process.

2.7.3.4 Establish operating authority decision making and discretion levels between the supplier and organisation

Prior to implementing the contract or going live the transition team is to set the authority and discretion levels pertaining to the outsourcing arrangement (Brown 2005). The supplier's relationship managers and dedicated team are established by the supplier with defined authority and discretion levels. However Brown advised that the organisation has the responsibility to set suitable authority and discretion levels for the operation of the contract. The setting of discretions and authority levels need not be set rigidly. Trevor (2005) advised that it is not practical that the contract operates in such a rigid manner that all decisions can only be made with signoff from organisational senior personnel only. Marcella (1995) recommended that the organisation's internal audit section review the discretions proposed by the transition team. He further suggested that the transition team taking into account the contractual arrangements and the requirements of the organisation's audit section before setting authority and discretion levels at the transition stage of the outsourcing process. This ensures that the supplier has a complete knowledge as to what decisions it can make on behalf of the organisation whilst delivering the services that have been outsourced. Of more importance to Marcella is that involvement of the organisation's audit department will assess the materiality and risk of discretions set by the transition team for the life of the outsourcing contract.

2.7.3.5 Cement a working partnership culture and commence a process of continuous improvement of contract delivery standards

The transition process may uncover aspects of improvement to services delivery not previously considered (Minoli 1995 ; Pitman 2002). This positive was also commented on by Kehal and Singh (2006). The transition phase may uncover improvements to the prior inhouse operations that were not previously in place. Khosrowpour (1995) and Howarth et al. (2000) considered that a successful outsourcing arrangement nurtures a culture that promotes continuous improvement and that this process of looking at improving process takes place initially during the transition phase of the outsourcing process. Continuous improvement processes according to Howarth et al. challenge the status quo and seek to improve the efficiency and effectiveness of service delivery by adopting new approaches and methods. The transition team is well placed to develop new approaches to service delivery by installing a culture of continuous improvement that seeks to search for new ways of doing things. The transition leader has the onus to foster a spirit of continuous improvement throughout the transition process. If there is a culture of challenging and improving practices at the transition stage then it is likely that this mindset of continually searching to search for new ways to improve service delivery standards will continue throughout the outsourcing arrangement and not just the transition stage. Other commentators have expressed similar views to Howarth et al. (2000) on the continuous improvement to business operations from outsourcing as a result of efforts during the transition phase of the outsourcing arrangement (McIvor 2005 ; Walmond 1997).

2.7.3.6 Develop and encourage a joint problem solving approach between organisation and supplier

Duening (2005) and Howarth et al. (2000) contended that many outsourcing arrangements flounder due to the inability of the supplier and organisation to work together to solve problems and address challenges that inevitably arise. There is a tendency according to Duening for the parties to consider the problem either that of the supplier or that of the organisation. However unless major problems are addressed with the cooperation and major input of supplier and organisation, it is likely according to Duening that any attempt to solve the problem will be compromised. Pitman (2002) considered the transition phase a good opportunity to develop a joint problem solving regime for major problems, issues and challenges. He pointed to instances where the organisation has the opportunity to engage a new client and the supplier works with the organisation to address service delivery issues to enable the organisation to win the client business. Similarly according to Pitman, the organisation will assist the supplier

in times where organisational support and resources are needed from the broader organisation so that the supplier can implement a new system or introduce different practices. Johnson (1997) cautioned against developing a culture where problems are localised or arguments of 'it's your responsibility' are given for every problem to be solved.

The transition team and the transition process are a good starting place to develop a joint problem solving regime where ownership of major problems is joint and the desire to solve the problem is with both parties (Gates 1993). If the transition team does not institute a joint problem solving mindset then it may be more difficult to establish this as a mindset and habit in later stages of the outsourcing process (Jenster 2005).

2.7.3.7 Address strengths and deal with weaknesses of data, systems and information of supplier and organisation

Mylott (1995) considered the transition stage of the outsourcing process is also concerned about reducing risks. He believed that during the transition stage the weaknesses of supplier systems and potential service delivery problems can be ascertained in advance of the outsourcing arrangement going live. This then gives the opportunity to rectify obvious problems with service delivery if it is at the supplier's end. Similarly Mylott specified that the organisation is able to review its own systems and processes, in particular its own interfaces to the supplier's systems to ensure that the interfaces work as envisaged.

According to Trevor (2005) failure to perform some form of system testing adopting dummy data that is relevant to the arrangement or otherwise testing supplier performance on some pilot basis prior to going live is seen as a missed opportunity to severely address risk issues. Problems uncovered can be addressed prior to the system going live.

2.7.3.8 Internal audit signoff to suppliers, systems, process and management practices

Following on from the need to test supplier system and processes during the transition phase, Marcella (1995) strongly advocated that the organisation's internal audit area signs off supplier systems, processes and management practices. This is often ignored according to Marcella during the transition phase and is another check on the processes and possible service delivery problems that may eventuate when the contract goes live. From the discussion about phase 1 activities, auditor involvement is likely to have commenced in phase 1 when comment on the business case and any risk issues would have received auditor scrutiny. Therefore as indicated by Marcella it

is likely that the internal audit department would have had input into the outsourcing process prior to the transition phase but will need to revisit its findings and comments on the basis of information gained during the transition phase.

2.7.3.9 Develop a rigorous organisational, management and stakeholder reporting regime

The outsourcing contract typically provides for a relationship management process at the higher level and typically for dispute resolution matters or major contract negotiations (Grostley Management Consulting 2003). However according to Oates (1998) the day to day outsourcing contract is usually concerned with more mundane and operational matters. As mentioned by Oates, outsourcing contracts rarely outline how the day to day reporting regime to organisational stakeholders will evolve during the life of the outsourcing contract. Oates recommended that the transition team needs to assess how best to report to stakeholders when the contract is implemented and operational. Of particular concern is that stakeholder communication and feedback is provided for. This means that the transition team develops a communication and reporting protocol for use by the organisation to keep stakeholders aware of what is going on in respect to the outsourcing contract (Lendrum 2000).

Rothery and Robertson (1996) established that stakeholders are interested in the areas of the outsourcing arrangement that influence their operations, especially the performance of the supplier in delivering the required services to them. A performance reporting framework is established by the transition team that addresses the issues pertaining to the contract directly affecting stakeholders (Walmond 2000). This may involve according to Walmond a regime of update meetings, feedback sessions with selected stakeholder representatives and use of technology such as internet to report on performance standards and service delivery required in the contract. Engaging stakeholders effectively is more easily done if they are aware of what is going on and a performance reporting regime developed by the transition team assists in achieving this objective (Barrett 1995).

2.7.3.10 Communicate continually transition progress to stakeholders and deal with impediments to progress

Johnson (1997) cautioned that many difficulties may present themselves during the transition phase that can cause delays or milestones expectations needing to be varied. This is unavoidable and the transition team according to Johnson has a duty to deal with impediments to progress in as timely and effective manner as possible. However, the transition team has a duty also to inform stakeholders and senior

management as to the progress or otherwise of the transition plan. Delaying advising stakeholders and especially affected employees of any bad news can cause even greater uncertainty and create a loss of confidence in the outsourcing process (Aalders 2001). Therefore the transition team according to Aalders has a duty to advise progress to the broader team and ensure that it is proactive in dealing with impediments that present themselves during the transition phase.

2.7.3.11 Develop an orderly transfer process relating to staff, data and files

Risk mitigation is a major concern of the transition team when transfer of staff, data and files are part of the outsourcing arrangement (McIvor 2005 ; Minoli 1995 ; Marcella 1995). Transfer of staff, data and files to the supplier is a potential risk area if not done well. The concept of a transfer action plan was introduced by Pitman (2002). From the literature there have been suggested requirements in an effective action plan to transfer staff, data and files. Some of the requirements identified from the literature are:

- Ensure that the legislative and work place agreements in place are met as part of the employee transfer process (Desai 2009)
- Staff are treated ethically and human resource issues are discussed and addressed separately with each affected employee (Williams 1998)
- Staff transferred to the supplier are adequately trained in the supplier's systems and processes prior to transfer (Harney 2002)
- Perform data integrity tests on data transferred to ensure the accuracy and reliability of data provided to the supplier (Grostley Management Consulting 2003)
- Maintain proper records of all organisational paper files either current or from archives transferred to the supplier (Department of Treasury and Finance 1997)

Transfer risks are real and need to be considered by the transition team. It is suggested by Johnson (1997) that each risk identified by the transition team in terms of transfer of assets, files and people to the supplier should be prioritised and with the major risks a defined risk management plan needs to be in place. Furthermore, Johnson has suggested that a proper transfer action plan is developed and properly reported as part of the transition phase.

2.7.3.12 Define respective roles of senior management within supplier and organisation

Basten (2003) believed that often overlooked in the transition phase is the role of senior management pertaining to supplier and organisation. He argued that while support of senior management is required throughout all phases of the outsourcing

process, senior management have a defined role to play in deliberating on major aspects of the outsourcing arrangement. This means according to him that senior management are kept informed by the transition team on issues or impasses where their assistance is needed for discussion with their counterpart at the supplier. Senior management therefore has an important high level negotiation and deliberation role in respect to the outsourcing arrangement.

Organisational senior management is not normally involved in hands on day to day operational matters pertaining to the contract (KPMG 1995). Therefore their interaction with the supplier is likely to be limited. However senior management representative(s) are considered by KPMG necessary to sit on the highest level relationship committee governing the outsourcing arrangement. The idea of regular relationship meetings (say quarterly or half yearly) between senior management representatives of the supplier and organisation is seen as an effective use of senior management resources to assist with the progress of the outsourcing arrangement (Walmond 1997). This achieves two goals according to Yelland (2006). The first goal is that senior management has some ownership of the outsourcing arrangement and secondly the role of senior management is constrained to higher level overview and deliberation instead of day to day operational matters. The second goal is that the transition team would structure a senior management reporting and overview process commensurate with the needs of the outsourcing arrangement.

2.7.3.13 Revise and signoff final or unresolved contract conditions, service standards, performance criteria as relevant

There is an onus on the transition team to consider the information it has gained as part of the transition process (Klepper and Jones 1998 ; Linder 2004). It is possible according to Linder that the service standards and performance criteria in the contract cannot be met when evaluated against the information and evidence obtained in the transition phase. This is not to say that the supplier has the right or ability to water down service delivery standards already negotiated but external or unforeseen factors may impact adversely on service delivery standards that were previously thought to be achievable. She considered that to turn a blind eye to this information ensures that the outsourcing arrangement has unrealistic service delivery and performance expectations. The transition team would need to conclude as part of the process that the service standards and performance criteria are feasible. In the event that this is not the case then the contract provisions relating to service delivery and performance standards require further input and negotiation. While this may create additional work and perhaps cost, it is considered by Linder that the long term benefits are enhanced

by addressing this at the transition phase and not at a later stage of the outsourcing arrangement.

2.7.3.14 Transition phase review of outsourcing objectives, aims and scope and dealing with stakeholder agendas

Consideration of outsourcing objectives, aims and scope is the guiding principles by which the transition team is required to operate (Pitman 2000). It is possible according to Pitman that competing stakeholder agendas may involve the transition team in considering other matters or issues other than the objectives and scope of the outsourcing arrangement. For example, Pitman was concerned that stakeholders may wish to retain some of the work in house arguing that it is strategic. Other agendas he stated may attempt to influence the transition team to concede ground on a point of difference with some organisational stakeholders. However the role of the transition team leader according to Pitman is to cut across this and ensure that the focus of the transition team purely is involved in activities that are directed to implementing the outsourcing objectives, aims and scope. Senior management assistance may be needed to reinforce and direct uncooperative parts of the organisation to embody the outsourcing objectives, aims and scope and not personal or specific organisational segment agendas (Basten 2003).

2.7.3.15 Relationship to other phases

The transition phase sets the stage for implementation and management of the contract as per phase 4 (management of contract phase). If the transition phase has been properly structured and implemented then the outsourcing arrangement can be managed more efficiently and effectively. If not, the risk for rectification of problems that should have been addressed at the transition stage is real and may compromise the success of the outsourcing arrangement when the contract goes live. This is best enunciated by Yelland (2006) who viewed rectifying problems in the management phase that were not properly attended to in the transition phase when first detected allocates resources away from properly managing the outsourcing arrangement.

2.7.3.16 Preparing for the next phase and completion of Phase 3

The transition phase prepares the ground work to commence the outsourcing arrangement. The key deliverables and actions of the transition phase are:

- The transition plan with key tasks and timelines
- Transfer of staff, files and data plan
- Other action plans directed to relationship and communication management

- Risk review and rectification of problems encountered during the transition
- Training plan and program for affected staff
- Staff and other resources transferred to the supplier
- Dealing with various stakeholder agendas in respect to outsourcing arrangement

More importantly the transition phase activities establish the working relationship with the supplier working with the organisation. It is the first opportunity to truly develop a relationship that is focused on partnering and alliance. It is also the last opportunity to assess risks, deal with any risk mitigation strategy and deal with last minute problems and issues that may adversely compromise the performance of the outsourcing arrangement.

2.7.4 Phase 4 : Managing the Outsourcing Arrangement

The prior discussion has highlighted that the performance of the initial 3 phases will affect either positively or negatively the performance of the outsourcing arrangement (phase 4) when the contract goes live. As with other phases, phase 4 has its own activities, tasks and key factors that are likely to impact on the success or otherwise of the outsourcing arrangement now that the contract is live.

Pitman (2002) mentioned that success in this phase requires a change in management thinking and as necessary personnel. Management styles and approaches that were acceptable for in house operations or had existed pre-outsourcing may not be appropriate in an outsourcing environment according to Pitman. Performance monitoring and dispute resolution were key aspects of the management of outsourcing contracts according to Desai (2009) that may need to change from how the organisation previously viewed performance monitoring and dispute resolution.

The literature was consistent in highlighting that the approach to managing outsourcing contracts required a change in management thinking and direction (Lacity and Hirschheim 1993 ; Mylott 1995 ; Frenza 2005 ; Lacity 1993). Management of the outsourcing contract required a different skill set to management of inhouse operations according to Yelland (2006). Yelland added that managers must move from a 'hands on' approach to a 'monitoring/steering' approach to management of day to day activities. Lessons from information systems outsourcing research point to successful management of outsourcing contracts required a cooperative and partnering approach (Lendrum 2000 ; Howarth et al. 2006).

Key activities particularly relevant to phase 4 would include:

- Appointing key management personnel within the organisation and supplier to adequately manage the outsourcing contract (Rothery and Robertson 1996)
- Continuing to develop working strategies that focuses on the partnering and alliance building between entity and supplier (KPMG 1995)
- Maintaining suitable dispute resolution strategies that deal with problems in a fair, timely and efficient manner (Linder 2004)
- Monitoring supplier performance in line with expectations of a partnering and alliance building relationship. This includes obtaining stakeholder feedback on supplier performance (Dominguez 2006)
- Acting to address problems in a timely and efficient manner (Department of Treasury and Finance 1997)
- Preparing for expiry or termination of contract (Pitman 2002)

As with the other phases of the outsourcing process, phase 4 has its own task, success factors and guidelines that are considered critical. These are outlined below.

2.7.4.1 Manage stakeholder expectations in relation to outsourcing arrangement

Because some organisational stakeholders may have unrealistic expectations as to the outsourcing performance, Booth (2010) considered that stakeholder expectation management is critical during the contract management phase. Perceptions of the outsourcing arrangement functions, services and performance will vary throughout the organisation according to Booth. Stakeholders may believe that the outsourcing arrangement is not performing when it in fact it is if measured against the aims and objectives set by the organisation and outlined in the contract. Similarly incorrect stakeholder expectations can impede acceptance of the outsourcing arrangement by the wider organisation. Without proper management of these expectations, there is according to Booth a likelihood of misinformation and misunderstanding. The contract is managed in respect to the objectives that have been set by the organisation. Accordingly, the stakeholders need to assess the contract's performance on similar criteria. Pitman (2002) suggested that in the early days of the outsourcing arrangement that an effort is made to educate the stakeholders as to the services being delivered and the means the organisation is monitoring performance in an open and transparent manner. Further Pitman believed that this means that where the supplier service delivery is falling short the stakeholders are advised as early as possible and at the same time an action plan is communicated to them in respect to addressing any problems or issues. Management of stakeholder expectations involve open and

transparent communication during the contract management phase (Tho 2005 ; Corbett 2004).

2.7.4.2 Create proper communication channels between organisation and supplier during contract management

The management of stakeholder expectations by open and transparent communication is only one reason to create proper communication channels. Boundy (2010) and Lendrum (2000) considered that supplier and organisation interaction needs to focus on timely and open communication especially about problems and difficulties in delivering the service. However it is critical according to Barrett (1995) that the communication process created assists the work flow and ability of the supplier to deliver the service without being hamstrung in the supplier reporting to numerous parties within an organisation who do not add to the process or to service delivery performance. This would mean that the day to day management communication is restricted to selected organisation team members who are the front line support for the supplier. If other stakeholders within the organisation are required to give input then according to Barrett the selected organisation representatives are the ones who source this input from the stakeholders on the main and not the supplier. Walmond (1997) cautioned that without a proper communication plan there is a danger of creating a convoluted reporting and dialogue process between supplier and organisation. He recommended minimising communication channels to those relationships which add to the process and assists in enhancing service delivery so that the supplier's attention is focused in dealing with a smaller number of organisational representatives only. In addition, Walmond recommended clear and defined communication channels to limit the possibility of conflicting instructions to the supplier. He pointed to potential issues with receipt of conflicting instructions from various parts of the organisation if the communication channel between supplier and organisation was not structured to limit these conflicts. The message from Walmond is that smaller but properly defined communication channels between supplier and organisation is a critical factor in assisting with service delivery and performance within an outsourcing contract.

2.7.4.3 Address contract problems, conflicts and disagreements between organisation and supplier quickly

A common theme throughout the literature is that outsourcing arrangements should address small disputes and conflicts quickly without escalating to senior levels or left unresolved (Oshri 2008 ; Burkholder 2006 ; Lendrum 2000). The argument adopted by Lendrum is that small disputes left unresolved inhibit the building of trust and rapport between supplier and organisation. Personality conflicts are likely to occur at any time

(Linder 2004). Another source of friction according to Basten (2003) is the potential for those staff transferred to the supplier to 'flex' their muscle with prior work mates within the organisation left to manage the relationship. Whatever the source of the friction according to Basten the quicker the dispute is dealt with the better.

Of particular importance according to McIvor (2005) and Yelland (2006) is the lead taken by the organisation contract relationship managers in resolving disputes. Yelland suggested that relationship managers need to lead by example and informal dispute resolution is the preferred option for those conflicts which are relatively minor. Walmond (1997) believed that regular meetings between supplier and organisation would assist in quickly addressing issues and problems. He believed it opportune for weekly meetings to be held between line managers and supplier staff to discuss progress and any action plan on matters raised for resolution. If there are personality conflicts Walmond thought this forum was a proper forum for the contract relationship manager to attempt to resolve with his or her supplier counterpart these personality conflicts in private. Overall the need for informal and effective dispute handling managed by the relevant relationship manager within the organisation is a critical need to deliver a partnering and alliance based relationship (Mylott 1995).

2.7.4.4 Establish and maintain a supplier monitoring performance regime

The outsourcing contract has defined service delivery and performance standards as outlined in the discussion on phase 2 activities. These performance standards need to be monitored for performance during the contract management phase (Desai 2009). Where the supplier is not meeting service delivery standards then according to Desai an action plan needs to be instituted. It is expected that a proper supplier monitoring performance regime is created at the outset (Lendrum 2000). This ensures according to Lendrum that the supplier is aware of how the relationship is to be monitored and the type of information that the supplier is to provide to the organisation.

Williams (1998) stressed that performance monitoring requires an open book and transparent approach by both organisation and supplier. The aim of performance monitoring according to Williams is to monitor service delivery standards and performance standards consistent with the objectives, aims and scope of the outsourcing arrangement. Performance monitoring cautioned Greaver (1999) should have no other purpose irrespective that some stakeholders may wish to use performance monitoring data for their own purposes. Greaver further added that the spirit of performance monitoring is for information and action rather than blame or criticism. He believed performance monitoring provides valuable feedback to both supplier and organisation on the performance of the outsourcing contract.

A performance monitoring regime and culture needs to be established during the contract management phase (Tunstall 2007 ; Koulopoulos and Roloff 2006 ; Corbett 2004). Key attributes of a performance monitoring regime that can enhance an outsourcing relationship as derived from the literature are:

- Ownership of the performance monitoring regime and thereby the process is with the organisation not the supplier (Walmond 2000)
- Monitoring the timing and approach of performance reporting is commenced from the outset and consistent in its delivery and timing to the organisational stakeholders (Opie 1998)
- The monitoring instrument has clear metrics of measurement relevant to each measure that are defined in the contract and should be those measures adopted in the performance reporting regime not others (Noble 2003 ; Brown 2005)
- The performance review instrument is timely and results obtained based on accurate data (Department of Treasury and Finance 1997)
- Supplier and stakeholder feedback to the results is critical to understanding the significance of the results and the action plan to rectify matters highlighted as needing attention (Rogers 2006)
- Performance instrument needs to be flexible and the items to be measured varied if scope, aims and objectives of outsourcing change over time due to factors not foreseen by supplier or organisation (Pitman 2000)
- Utilised to assist in change management activities within the organisation if there are issues raised that need to address how the organisation approaches the outsourcing arrangement and the level of resources or support required from stakeholders (Johnson 1997)

Yelland (2006) considered a performance regime is created to provide valuable feedback in a positive manner to both supplier and organisation. According to Yelland, properly framed, performance monitoring within an outsourcing arrangement can create positive change management within an organisation and provide feedback as early as possible so that more serious risk issues or performance shortfalls are not left outstanding.

2.7.4.5 Partnering approach as the thrust of the working relationship

The importance of encouraging a partnering and alliance working relationship has been highlighted previously in this chapter. The importance of this concept is critical in the management phase of the outsourcing process. Cullen and Willcock (2003) advised that partnering and alliance development is central to any effective working of an outsourcing arrangement. This was also confirmed by Lendrum (2000). However

according to Dominguez (2006) the parties need to work to achieve this. Klepper (1998) contended that many outsourcing arrangements end in failure because the parties are unable or unwilling to develop a partnering approach. Each party according to Klepper (1998) was prepared to only consider its own needs and wants irrespective of the validity of the needs of the other party to make the relationship work and work done in earlier phases of the outsourcing process to encourage a partnering mindset.

Lynch (1993) and Basten (2003) identified that a partnering mindset within an outsourcing arrangement has at least two requirements for it to be a true partnering mindset. The first requirement is that partnering mindset requires an 'us' and 'we' approach as against a 'you' and 'them' approach. This is likely to happen if there is a close working relationship where the supplier and organisation cooperate in day to day activities. The second requirement is to develop closer working relationships by participating in a myriad of activities between supplier and organisation. Durmaz (2008) offered social networking as an activity that he considered an important part of building trust and rapport. Pitman (2002) lamented that in some outsourcing contracts the representatives of the supplier and organisation rarely interact. Joint training between supplier and organisation representatives was seen by Pitman as an important partnering activity that allows for interaction and learning at the same time. He also thought that an environment that promotes innovation and creation would assist in creating a partnering relationship. The ability of the supplier to exercise some discretion in the outsourcing arrangement has been noted earlier. However there is likely to be benefits where there is a reward to the supplier for the supplier exercising discretion that results in benefits. Where there is innovation that results in better performance, Lonsdale (1998) argued that the organisation should acknowledge this and then mirror this with a suitable reward. Promoting a culture of innovation and creativity according to Lonsdale is a key part of enhancing the outsourcing arrangement. O'Looney (1998) and Walmond (1997) discussed sharing of knowledge and research as another way that partnering and rapport is created. The organisation and supplier according to Walmond can both share research of industry and market trends and derive an action plan jointly to meet the challenges and opportunities that these trends may bring in the future.

2.7.4.6 Continually renegotiate contract terms with supplier in the light of new information

Minoli (1995) was firm in recommending that no outsourcing arrangement should be so inflexible that it prevents change and variation to terms in the light of new information or circumstances. Arrangements that are so rigid according to Minoli create ill feeling between the parties because there is no room to move when the scope of the outsourcing

arrangement needs to change but cannot as the arrangement does not allow for change or variation to the terms. It is critical then that the contract terms developed during phase 2 contain provisions for variations to the contracted arrangement in the light of environmental changes or other factors that require a variation of the original terms (Domberger 1998). Similarly performance monitoring according to Domberger may highlight areas that need closer attention and the arrangement needs to be varied. Accordingly as viewed by Domberger, the outsourcing process is a continual negotiation exercise between supplier and organisation. It is important to Domberger that the organisation adopts this continual evaluation of the outsourcing arrangement as one of its key competencies in managing the outsourcing contract. In some outsourcing arrangements, there is a periodic review by an internal audit area of the organisation to certify the adequacy of the contractual provisions are still valid in the light of legislative changes, performance and delivery standards and other factors that may impact on the organisation (Marcella 1995). Continual contract review and revision may not always be practical according to Yourdon (2005) given that information may take time to be made available and any review will be therefore limited. However, it is suffice according to Yourdon that the relationship manager regularly reviews the contract and arrangement to derive any variation or changes to the scope, aims or objectives of the outsourcing arrangement in the light of new information or change in circumstances such as changes in the law or environmental conditions that the organisation has to face.

2.7.4.7 Act fairly on penalties and rewards in outsourcing contract

Failure to act fairly in respect to penalties and rewards within the agreed parameters is a major cause of disagreement (Aalders 2001). Disputes on performance rewards according to Aalders can create ill feeling and compromise the willingness of the supplier to work with the contract other than doing the minimum allowed under the contract. Often the performance hurdles are structured within the contract in a manner that is hard to interpret and both supplier and organisation will have their own view of when the performance reward applies. Kehal and Singh (2006) viewed this as a potential for disagreement and angst. Accordingly, Kehal and Singh were of the view that it is important in prior phases of the outsourcing process that clarification of performance hurdles is addressed and there is no confusion as to when a reward or bonus for performance is payable to the supplier. Objective data gained from the performance monitoring regime instituted from the outset will assist in determining whether the quantitative performance hurdles have been met (Imrie 2000). However, Imrie cautioned that qualitative measures that focus on stakeholder satisfaction are more open to dispute and challenge as there is some subjectivity with these measures

of performance. The aim according to Imrie is to not let disputes about rewards and penalties to fester. If necessary, he advised that the arrangement should have a defined procedure to mediate the dispute in a professional, open book and transparent manner. Many outsourcing arrangements flounder because there is no independent dispute resolution process to address disputes relating to penalties and rewards (Halvey and Melby 2000 ; Lendrum 2000).

2.7.4.8 Provide proper strategic direction to supplier

The setting of strategic direction is not typically outsourced and remains an in house function (KPMG 1995). This in KPMG's mind meant that the supplier is unaware of the strategic direction changes unless informed by the organisation. The knowledge of the organisation's strategic direction allows the supplier to plan future operational work schedules or otherwise resource the operations adequately to meet the needs of the organisation's future strategic direction. Allowing for matters of confidentiality and sensitive information that may need to be embargoed for a period of time, the supplier needs to have a close working partnership with the organisation and accordingly the onus is on the organisation to inform the supplier as to major changes in organisational strategic direction as soon as is practical (Webster and Hardin 2000 ; Yelland 2006). This according to Yelland enhances partnering and builds rapport. It also provides the supplier feedback that it can utilise in delivering the required services under the outsourcing arrangement.

2.7.4.9 Audit continually assets, data and files held by supplier on the organisation's behalf including supplier system integrity

The audit of assets, data and files held by the supplier on behalf of the organisation is a necessary process and one that serves to protect the organisation if these assets are transferred back to the organisation or another supplier is chosen at expiry of the outsourcing contract. It is too late to do this at the expiry or termination of the contract (Marcella 1995). This is normally done in conjunction with an audit of the supplier's systems, processes and files to determine the integrity of its operations and system output.

2.7.4.10 Implement suitable contingency strategies where poor performance exists

Gartner Group (2002) and Lendrum (2000) advised that in the event that the outsourcing arrangement turns sour and the relationship is beyond repair, the relationship manager with input from senior management needs to develop contingency plans to rectify the problem. The problems may exist very early in the

contract and accordingly the contract cannot be allowed continue to expiry that may be some time away. The contingency plan may involve transferring some of the functions back in house or approaching other suppliers to provide the services that are not being performed by the current supplier. However, Williams (1998) warned that this situation presents risk to the organisation as the cooperation of the supplier may not be forthcoming and contractual legal action could eventuate. Reputational risk to the organisation has to be managed (Kern and Willcocks 2001). A contingency risk management plan would be created according to Imrie (2000) to deal with the various risks that could present themselves in the situation of poor supplier performance. Notwithstanding any contingency plan in operation the implementation of the contingency plan Imrie believed that the situation with the supplier is likely to be difficult and carry risks to meeting day to day service delivery requirements and stakeholder needs. The importance of termination rights and supplier obligations for non performance in the contract remains paramount to deal with this (Burnett 1998).

Patel and Aran (2005) and Mol (2007) advised that relationship managers keep abreast of developments in outsourcing related to their industry. Many organisations are unaware of new participants which have recently entered in the market. Knowledge of what outsourcing resources including new entrants are present in the current market assists in the formation of a suitable contingency approach in the event the outsourcing arrangement is deemed to be irrevocably damaged (Trevor 2005).

2.7.4.11 Relationship to other phases

A properly managed outsourcing contract ensures that the expiry phase of the outsourcing process is conducted in as efficient manner as possible and without undue pressure to find a solution to a poor performing contract. The more difficult the management of the contract, the more difficult is the contract expiry negotiations and outsourcing process going forward. Khosrowpour (1995) and White and James (1996) stated that a poorly managed or implemented outsourcing contract will incur significant costs and risk to the organisation at expiry of the contract and decisions need to be made on the contract and conduct of the outsourced functions going forward.

2.7.4.12 Preparing for the next phase and conclusion of Phase 4

The organisation prepares for the expiry of the contract. Notwithstanding that the relationship between the supplier and organisation is up for review, the day to day business continues and the relationship manager will continue performing the activities required in phase 4.

The main deliverables pertaining to phase 4 are:

- Communication strategy including shareholder feedback
- Dispute resolution regime
- Performance monitoring regime (risk and reward considerations)
- Risk management and contingency risk considerations
- Audit review and monitoring regime

2.7.5 Phase 5 : Contract Expiry

The nature of outsourcing arrangements are that they have fixed contract terms (Johnson 1997). Therefore according to Johnson the expiry phase of the outsourcing process requires careful management and approach to minimise risk and cost. The literature has identified a number of activities and steps for organisations to take to deal with contract expiry and end of the outsourcing arrangement.

The final phase of the outsourcing process according to Yelland (2006) required detailed examination of contract performance and whether the original objectives and aims of outsourcing have been met. The evaluation techniques used during phase 1 may have relevance at the time of contract expiry according to Pitman (2000). Pitman believed that adopting the evaluation techniques used in the early phase of the outsourcing process allowed for a proper decision to be made as to whether the outsourcing contract was to be renewed or terminated. Alternatively, the final decision may be a mixture of inhouse versus outsourcing arrangements according to Aalders (2001). However the decision to transfer the operations in house may be fraught with danger. Jenster (2005) cautioned that transferring operations back inhouse may be a difficult process requiring due care and skill.

Outsourcing contracts have a limited life span (Gartner 2007). Typically the majority of major real estate outsourcing contracts in Australia are usually between 4 years to 6 years duration (Walmond 2000). This differs from some information systems outsourcing where contracts are typically much longer say 8 to 10 years in duration (Yelland 2006). Basten (2003) stated that a review of the outsourcing arrangement and contingency planning in the event of a non performing contract will need to be investigated during phase 5. At conclusion of this phase, the outcome is usually one of renewal of the outsourcing contract, revision of contract terms as part of the renewal, appointment of a new supplier or termination of the outsourcing arrangement and transfer of functions back inhouse (Rothery and Robertson 1996). The literature provided some direction to the approach of transferring operations back inhouse. Many commentators commented on the difficulty of transferring the operations previously outsourced back inhouse (Brown 2005 ; Pollit 2005 ; Milgate 2001).

The final phase of the outsourcing process provided management an opportunity to reassess not only the outsourcing arrangement but whether the aims and objectives established during phase 1 are still relevant (Oates 1998). Some of the qualitative and quantitative analysis techniques used during phase 1 may be relevant for reassessing the outsourcing arrangement at the expiration of the contract term (Tho 2005).

Key activities particularly relevant to phase 5 would include:

- A review of the outsourcing strategy well ahead of contract expiry including paying close attention to the legal and contractual requirements required to be met on expiry of the outsourcing contract (Frenza 1999)
- A review of the objectives and drivers for the outsourcing of outsourcing would be undertaken as part of the entity's review of performance and workable alternatives to the current outsourcing arrangement (Linder 2004)
- Plan properly for the transition to the next strategy if the decision is made to pursue other alternatives (Pitman 2002)
- Obtain senior manager and stakeholder support and buy in to any alternative strategy to the current outsourcing arrangement (Noble 2003)

The key tasks, attitudes, inhibitors, success factors pertaining to phase 5 are presented in detail below.

2.7.5.1 Review outsourcing options and other options including transfer back inhouse around 12 months from expiry of outsourcing contract

The review of outsourcing as a concept and its alignment to overall organisational goals is important given the organisation and the objectives that influenced the decision to outsourcing may have changed from the time that the decision to outsource was made (O'Malley 2001). There is no general conclusion from the literature as to when the review process should commence. Some have expressed a view that the review of outsourcing as a concept should start around 12 months from expiry of contract (Basten 2003 ; Yelland 2006). The argument advanced by Yelland is that the decision to continue with outsourcing or other options needs to be considered well before the contract expires to allow other options to be implemented.

Williams (1998) advised to examine the contract for direction on how to handle contract expiry because according to him the contract has legal effect as to how the outsourcing arrangement is to be brought to an end. The contract is likely to provide a process to handle the expiry process and accordingly the review timetable should consider the requirements of any options available in the contract that have to be exercised prior to a given date. Tunstall (2007) and Pitman (2002) believed that there is a danger of procrastination regardless of the timetable in the contract and therefore the sooner the

expiry strategy is examined the better. Therefore it is imperative according to Pitman that a review of options is conducted adopting a timetable that does not impose pressures on the organisation to make a particular decision or choose an option because of deadlines imposed by the outsourcing contract.

Gartner (2002) considered that much of what was performed in the initial phase of the outsourcing process such as assessing objectives, aims and benefits of outsourcing would need to be repeated but this time with the knowledge and experience of the outsourcing arrangement. Therefore, Phase 5 considerations involve much of what was considered in phase 1. The difference is that phase 1 did not have had the actual information and performance record now available according to Gartner. Oates (1998) viewed the expiry time of an outsourcing contract as an opportune time to review the whole arrangement and basis for having entered into the outsourcing contract in the first place. He advised that the review under phase 5 needs to challenge any of the assertions, opinions and viewpoints espoused in phase 1 if applicable. Walmond (2000) proposed a review team made up of various organisational and other stakeholders to review the future role of outsourcing as implemented within the organisation. Therefore it is recommended according to Walmond that the review team is a multi disciplinary perhaps under the control of an independent third party not necessarily swayed by any internal organisational agenda. Brudenall (2005) also cautioned against outsourcing review teams having their own agendas especially at contract expiry time when personal agendas may come to light. However the literature has identified that some consistency and experience with the outsourcing arrangement is also needed when reviewing the outsourcing arrangement at expiry. The existing relationship managers would have a role in the team but the project leader is likely to come outside of the existing relationship management team (Trevor 2005). This ensures no apparent conflict of an existing contract relationship manager pushing his or her own viewpoint in reviewing options apart from outsourcing.

2.7.5.2 Review once again the objectives, aims and drivers of outsourcing in the light of the outsourcing contract performance

The review of options at expiry requires an examination of the objectives, aims and drivers of outsourcing that are now relevant and based on current conditions and experience with the outsourcing contract (Corbett 2004). The initial objectives for outsourcing may have been relevant when the contract was initiated but may not be relevant now according to Corbett. Jenster (2005) mentioned that at contract expiry all options from transferring the operations back in house to complete outsourcing will again be examined. The review of options according to Jenster outside of outsourcing should focus on scope, aims, drivers and objectives desired by the affected

stakeholders as part of overall organisational performance and the ability of outsourcing to meet these requirements. Business imperatives and market conditions may have changed since the outsourcing arrangement commenced. Because the business may have changed since outsourcing commenced, Yelland (2006) advised that the original drivers supporting outsourcing may no longer be relevant and outsourcing no longer appropriate. For example according to Yelland, cost drivers to outsource may not be relevant if work volumes have significantly lessened since the contract started. This may allow the previously outsourced work or services to be brought back in house or another arrangement negotiated to meet drivers which are now relevant.

Stakeholder input into the review process and decision making is important (Bragg 2006). The requirements of different parts of the organisation are evolving and the requirements may have changed from when the outsourcing commenced according to Bragg.

2.7.5.3 Review alternatives to outsourcing, current best practice and alternative suppliers now available in the market place

The aim of the review team at the time of contract expiry is to consider all options including outsourcing with an open and inquiring mind (Unit 1995). Research of available options is a key requirement to ensure that the review team is aware of:

- New suppliers that have entered the market since the outsourcing arrangement commenced (Commerce 2002 ; Greaver 1999)
- Outlining new options available without necessarily at the outset attempting to judge these options as either workable or not (Walmond 2000 ; Barrar and Gervais 2006)
- Industry best practices measures in respect to outsourcing arrangements of the type that is being proposed (Basten 2003)

Corporate Executive Board (2002) considered that the expiry phase of the outsourcing process opens up opportunities to explore options that were different from what was considered some time ago when outsourcing was first considered.

2.7.5.4 Review base line costs on a total cost basis based on outsourcing experience

Aalders (2001) and Mol (2007) discussed the benefit of having cost information over the contract term that would provide for a more comprehensive and accurate base line cost assessment. He believed that review of the original baseline cost of operating the outsourcing contract and the cost of considering other options is a critical task. Each

option possible at expiry according to Mol needs to be costed adopting a total cost approach that includes not only the direct costs but indirect costs that need to be incurred by the organisation as a result of proceeding with those options. Indirect costs involve those estimates of additional organisational resources and time as a result of proceeding with that option that can be estimated only albeit very subjectively. Therefore in considering the various alternatives, there is substantial information in place to derive an accurate base line cost projection. However, for in house options or other options where total outsourcing is not considered, Basten (2003) stated that organisations find it difficult to assess indirect costs incurred by the organisation as a result of transferring operations back in house given the in house option has no recent cost history or recent operational track record.

2.7.5.5 Risk and return analysis the key to which decision to make

Each option whether continue with outsourcing or adopt another approach requires its own risk return analysis (Marcella 1995). The option with the most optimal risk and return profile should be that chosen according to Marcella. He proposed a variety of analysis techniques such as discounted cash flow analysis, evaluation matrix and marginal cost analysis as tools able to be used by the review team to determine the risk and return profile of each option. Walmond (2000) had a similar view to Marcella on the techniques appropriate to analyse the options on a quantitative basis. However Trevor (2005) believed that unless there are significant differences in the risk and return profile of each option and that outsourcing is significantly dearer then it is likely that organisations will stick to a 'safe option' such as outsourcing given it is known and in place. This would indicate that organisations reluctantly leave outsourcing as an option once it is in place. This was discussed in KFPW (2000). KFPW (2000) contended that outsourcing once in place is likely to remain in place as other options to replace outsourcing have become difficult, uncertain or costly. Nevertheless the analysis of risk and return is an important activity to assess the most optimal option post expiry.

2.7.5.6 Obtain senior manager buy into decision recommended by review team

Johnson (1997) advised that senior management support for the review team's preferred option is a key to obtaining 'buy in' from the broader organisation. The decision to continue with outsourcing may not fit with all agendas within the organisation and accordingly Johnson advised of the need of senior management buy in to the decision to continue with outsourcing if this in fact is the decision reached. Resources are still required to be allocated to the review team during the contract expiry phase of the outsourcing process (Aalders 2001). Senior management support

to the expiry review process according to Aalders will assist in the review team obtaining resources and cooperation from affected organisational stakeholders. However, Minoli (1995) maintained that senior management require a rigorous review process that addresses the lessons learnt from the current outsourcing arrangement to give them confidence in the decision reached by the review team. He believed that stakeholders would need to be convinced as to the final decision from the review team and this could only be achieved if a proper review was conducted by the review team with an ability to objectively justify the decision reached.

2.7.5.7 Manage the negotiation or renegotiation process allowing for competitive tension between the suppliers tendering

The phase 2 requirements for managing the negotiation or renegotiation process are no different at this final phase of the outsourcing process. Walmond (2000) believed that maintaining competitive tension is important as the incumbent is considered to have a competitive advantage by other suppliers. Pitman (2002) cautioned that many suppliers are reluctant to devote resources to the tender process where an incumbent has been the supplier for some time. The argument or perception from other suppliers according to Pitman is that the organisation is reluctant for various reasons to move away from this supplier. Pitman was concerned about the lack of competitive tension that may cause the price of the contract to be higher than would be the case if there is spirited bidding. Brown (2005) advised of the need to keep competitive tension by adopting a bidding process between rival suppliers for the contract. This process according to Brown is likely to give an indication to prospective suppliers that the incumbent supplier is not a 'sure thing'. A process that creates competitive tension between tendering suppliers assists in keeping the contract price as competitive as possible. The literature has outlined that competitive tension is enhanced by:

- Maintaining an open book, transparent and structured tender approach (Burnett 1998)
- Treating all tenderers fairly in respect to information and people access (Johnson 1997)
- Keeping timetables and deadlines set by the organisation (Jenster 2005 ; Benaud and Bordeianu 1998)
- Making the evaluation criteria clear to all tenderers (Duening 2005)
- Advising fate of each tender in as timely manner as possible (Johnson 1997)
- Providing prospective suppliers sufficient detailed information on the performance standards expected in the contract and outsourcing arrangement (Linder 2004)

It would be common according to Majjar (2003) for outsourcing tenders on expiry to be conducted on a staged basis. At the closure of each stage a number of prospects are eliminated until there are at least two or three prospects (more likely incumbent and other suppliers) who participate in the final bidding process. This creates according to Pitman (2000) competitive tension as the remaining bidders including the incumbent are required to participate in a competitive environment until the final result is known.

2.7.5.8 Announce the decision but continuity of business the imperative

Business continuity is an imperative while the review and negotiation process is in process at contract expiry (Imrie 2000). The incumbent supplier is likely to be apprehensive as to the outcome of any tender. Of particular concern according to Imrie is where the decision to award the tender to an alternative supplier as this is particularly sensitive and provides challenges in ensuring business continuity. The incumbent supplier may be reluctant to provide full effort in the knowledge that its contract has or is about to come to an end. Business continuity planning is a key requirement of this phase. Accordingly, the legal documentation established during phase 2 of the outsourcing process will need to have favourable provisions to the organisation to counter this risk to business continuity of changing suppliers at the expiry of the outsourcing contract. Pitman (2002) argued that the contract should provide for retentions in the final year to ensure a smooth transition to a new supplier. Pitman suggested that if the process and cooperation was as agreed the incumbent supplier would be repaid any retention at the conclusion of the transfer to the new supplier. Understandably, phase 2 contract formation would need to allow for this or have a similar provision as part of the outsourcing contract.

2.7.5.9 Manage file, data, asset and system transfers as part of an organised transition process

Mitchell and O'Brien (1999) and Department of Treasury and Finance (1997) advised that movement of files, data, assets and system from one supplier to another in the event that the supplier is replaced opens up potential risk areas. The new supplier will work with the existing supplier to transfer the files in as orderly manner as possible. Department of Treasury and Finance (1997) suggested a transition program would assist in the transfer of files, assets and staff to the new supplier. However, the transition program is likely to impact upon the organisation in general and not just the workings of the outsourcing review team. A transition program agreed by the organisation, existing supplier and new supplier is required to address management of this process and in particular the risk issues that may arise (Noble 2003).

Audit input and verification of the files transferred is required to substantiate the verification of the data, files and information passed to the new supplier. The new supplier will expect that the data and files passed to it have integrity and are in a format able to be relied upon (Unit 1995).

2.7.5.10 Communication strategy implemented – publicity management a key requirement at contract expiry

Communication strategy is more directed in this phase initially to manage the public communication to not only the broader organisation but the general public as well about the fate of the outsourcing arrangement. Large scale outsourcing tenders have received public scrutiny and interest in recent years (Johnson 1997). The reputation of the organisation is to be considered in any communication according to Johnson. Trevor (2005) discussed the need for especially any clarification or response to media information misinformation to occur as part of this phase. Principally, Trevor believed the communication should address the process undertaken to select the successful supplier and the benefits of the outsourcing arrangements to the organisation and not focus unduly on any contract amount speculated in the media. According to Trevor, media speculation as to the quantum of the contract amount cannot be helped. Any communication should also focus on any negative comments in the media that reflect on the organisation and suppliers who may have tendered (Walmond 1997). However the key aim is to focus on the benefits expected as part of the arrangement (Trevor 2005).

2.7.5.11 A repetition of the transition phase but with a slightly different focus if a new supplier is chosen

The transition process was articulated for phase 3 and much of the steps that applied to the transition phase will be repeated especially if a new supplier is chosen to take over from the incumbent supplier. The focus on the transition plan in this case is slightly different to phase 3 given business continuity issues relating to the requirement to work within the existing arrangement until the transfer is complete are to be considered (Lendrum 2000). Timelines, milestones and process maps need to be constructed with the knowledge that the outsourcing arrangement needs be transferred to the new supplier in as orderly and efficient manner as possible (Kehal and Singh 2006).

2.7.5.12 Consider third party suppliers in the transition to new supplier

Outsourcing arrangements are complex and may involve other parties apart from the organisation and main supplier. A change in the main outsourcing supplier may create

issues in the relationships with secondary or supporting supplier relationships belong to the incumbent supplier. Yelland (2006) advised to consider secondary supplier relationships when creating a workable transition program to cater for when the main supplier changes. He believed the transition process needs to allow and account for third parties who may or may not be involved in providing services to the new supplier as part of the overall outsourcing contract. There is a potential risk according to Yelland from the loss of continuity in the new supplier having to source alternative suppliers is real and potentially able to compromise the performance of the outsourcing task. Although this business continuity risk has been assessed by the review team as part of the expiry phase key activities, it is nevertheless critical to deal with associated suppliers that dealt with the prior supplier in delivering the former outsourcing contract.

2.7.5.13 The possibility for a new beginning – staying with the incumbent supplier

The expiry of an outsourcing contract has positives in being able to reflect on the arrangement over the contract term and institute changes to the arrangement with the existing supplier if the decision is made to maintain the existing arrangement. Walmond (1997) discussed the expiry phase of the outsourcing process if properly implemented could achieve:

- A revised contractual arrangement that accounts for changes to legislative and market conditions since the original outsourcing arrangement was initially written
- An improved performance and reward system with incentives based on the experience gained over the term of the outsourcing contract
- Reassessment of personnel needs and if required replace key outsourcing personnel to improve the working relationship between supplier and organisation
- Implementation of new business processes within supplier and organisation to improve the delivery of services under the outsourcing contract
- Communicate openly and deal with complaints from stakeholders at a presentation to them of the review of past contract performance and where the delivery and performance standards are expected to be set in the new outsourcing arrangement

2.7.5.14 Relationship to other phases and conclusion of Phase 5

Phase 5 utilises certain activities and processes from the other phases. It sets the stage for the next outsourcing arrangement with or without the existing supplier or transfer back of the outsourced functions in house. The outsourcing process does not

end at phase 5 unless the decision is made to return all functions outsourced back in house.

2.7.5.15 Preparing for life after contract expiry

The outsourcing contract expiry phase signals the end of the outsourcing agreement as was implemented at the outset. Phase 5 has the following activities, tasks and deliverables:

- A decision as to which option to take in respect to continuing outsourcing or otherwise revert to an in house operation.
- A decision as to supplier whether to keep the incumbent or appoint a new supplier
- A new contractual arrangement whether with the existing supplier or new supplier as relevant
- A transition plan dealing with risk and business continuity issues especially where a new supplier has been appointed
- A communication plan focused on managing public perceptions in respect to the new outsourcing arrangement or process to appoint a new outsourcer
- A verification and audit of system data, files and documentation proposed to be handed over to the new supplier
- Improvements to the contractual arrangement, processes and services standards as a result of lessons learnt during the prior outsourcing arrangement
- Winning over the broader stakeholders to understand the expectations and expected service standards going forward

2.8 Chapter review and conclusion

A review of the literature has identified a phased approach to successfully implementing an outsourcing arrangement. Five distinct phases have been identified. Each phase has its own particular requirements and strategies. The phases while unique are also interdependent. If proper objectives and aims for outsourcing are not set in phase 1 then the outsourcing process is likely to begin in a compromised manner. A poor contractual arrangement devised during phase 2 can adversely affect the management of the outsourcing contract in phase 4. Similarly a poor transition (phase 3) can adversely affect the operations and running of the outsourcing contract during the term of the contract (phase 4). Lastly, failure to take into account contract expiry risks during phase 2 can adversely impact phase 5 outcomes.

The next chapter outlines an original framework for successful outsourcing of corporate real estate adopting the findings from the literature review.

Chapter 3 : A Framework For The Successful Outsourcing of Australian Corporate Real Estate

3.1 Introduction

The framework for successful outsourcing pertaining to Australian corporate real estate presented in this chapter has been derived from the literature review conducted in chapter 2. The word 'framework' is defined by the Merriam-Webster Dictionary 1994 page 301 as '(i) a basic conceptual structure (as of idea) or (ii) a frame of reference. The term 'frame of reference' is further defined in the same dictionary as 'a set of conditions, or assumptions that determine how something will be approached, perceived, or understood'. It is with the purpose of defining a conceptual structure, presenting a frame of reference in respect to successful outsourcing and offering ideas, conditions, assumptions and processes to attain success in outsourcing of Australian corporate real estate that the framework was developed.

In addition, the framework developed by the study is intended to be used by practitioners involved in Australian corporate real estate outsourcing. It has been designed to be self contained and usable as presented. Accordingly the framework is presented in a manner that would guide the outsourcing practitioner in adopting those practices that aid or contribute to successful corporate real estate outsourcing. The framework addresses outsourcing success on the basis of a five phase approach identified as part of the literature review. Within each phase, the framework defines the key factors (without necessarily denoting relative weightings to each factor), inhibitors and deliverables required from that phase. Interdependencies between phases are also discussed as part of deriving the framework. In chapter 5, the framework is validated against five intensive case studies. The framework's utility to practitioners of Australian corporate real estate Australian was validated in addition to the five intensive case studies by a focus group review of the utility of the framework to practitioners. The findings of five case studies and the focus group review are presented in chapter 6.

3.2 Key assumptions and conditions underlying the framework for successful Australian corporate real estate outsourcing

Fitoussi and Gurbaxani (2009) considered that multi task principal-agent theory is the most relevant organisational and management theory pertaining to outsourcing contracts. Their view was that outsourcing contracts have at their core a principal-agent relationship and an outsourcing arrangement is multi faceted in terms of what factors

contribute to success. Gibler and Black (2004) also considered that outsourcing arrangements lend themselves to principal-agent theory. The underlying theory supporting the framework derived by the research is that of multi task principal-agent theory. At the heart of the framework is the contractual and working relationship between the principal (the organisation that outsources) and the agent (the key supplier delivering the outsourcing services). Outsourcing success in the framework is subject to defined assumptions and conditions. The framework was developed from the literature review presented in chapter 2 and accordingly the framework adopts key assumptions and conditions that are required to be in place for successful outsourcing as ascertained from the outsourcing literature. These key assumptions and conditions underlying the framework are:

Formal contractual arrangement for the outsourcing of corporate real estate services is to be in place between the organisation and third party supplier

The nature of the arrangement must be directed to outsourcing and will have typically the following characteristics typically found in outsourcing arrangements:

- Legally enforceable arrangement with contractual defined term and monetary amount within the formal agreement
- Specified scope of real estate services and functions subject to the outsourcing arrangement are clearly embodied in the agreement
- Functions and services previously informed in house are transferred to the supplier performing these functions and services under the arrangement
- Arrangement involves a head supplier and organisation as the main contractual parties to the arrangement and responsibility and accountability for the delivery of corporate real estate services and functions rests with the supplier
- Real estate services and functions outsourced are ongoing and not one off engagement or purely limited to a specific real estate function or operation of real
- Real estate services functions of an operational not strategic nature are outsourced as part of the arrangement with the third party supplier

Accordingly, the attributes above would eliminate one off engagements or limited service engagements that an organisation may enter into with other parties from time to time. For example, an organisation may engage a supplier to project manage a major refurbishment to one of its building. This one off arrangement is not of a type considered outsourcing under the framework notwithstanding the contract value is often of a significant amount. The framework therefore does not apply to and is not intended for use for non outsourcing arrangements such as these one off arrangements.

Scope of corporate real estate services arrangements pertaining to the framework

The framework pertains to major corporate real estate outsourcing and requires the outsourcing contract to be of a certain value and provide for a minimum of scope of works and services. Major corporate real estate outsourcing is for the purpose of the framework limited to real estate operations having a minimum value of real estate assets of \$200million and an annual outsourcing contract with a third party supplier of a minimum value of \$2million.

The scope of works, functions and operations are as a minimum to comprise as part of the outsourcing services:

- Facilities management services including but not necessarily limited to all day to day routine repairs, lighting, cleaning, security, rubbish removal, contractor and building services warranty monitoring and related services
- Annual and programmed maintenance of building services and functions
- Safety building audits and reviews including review and maintenance of emergency services
- Maintenance of a dedicated call centre/help desk by the supplier to manage and implement the delivery of outsourcing services on behalf of the organisation
- Maintenance of a dedicated information system maintained by the supplier but allowing access by the organisation within the scope of the outsourcing arrangement
- Property management services including dealing with estate agents and statutory bodies in respect to permits, GST obligations, rates, taxes and required approvals pertaining to property and building matters
- Sales, leasing and procurement of real estate for and on behalf of the organisation
- Property cost administration and payment of property operational expenses on behalf of the organisation including property capital expenditure
- Capital works design, project management and delivery of new fitout and refurbishment to a specific site or sites
- Property valuation and advisory services
- Engage as required consultants and other suppliers to perform the services and functions required under the outsourcing arrangement.

Notwithstanding that some organisations may have for convenience of delivery other services and functions not considered strictly 'real estate functions or operations' included as part of a real estate outsourcing arrangement, the principle of the framework is nevertheless that the outsourcing arrangement is a 'total corporate real

estate outsourcing' arrangement and all the services outlined above are part of the arrangement.

Outsourcing success definition for purposes of the framework

The framework has been developed to enhance outsourcing success in the implementation and delivery of major Australian corporate real estate outsourcing contracts. Accordingly, the framework assumes that the outsourcing arrangement is considered successful if it meets three criteria being:

- The outsourcing arrangement meets the aims and objectives set by the organisation for outsourcing
- The outsourcing arrangement does not conflict with or otherwise compromise broader organisational goals and performance
- The drivers for outsourcing as identified at the time of the inception of the outsourcing arrangement have been met. The drivers for outsourcing are likely to consist of one or several of the drivers identified below being:
 - Cost reduction and savings
 - Service quality improvement
 - Acquisition of competencies not within the organisation
 - Reduction of resources devoted to 'non core' activities
 - Access to technology
 - Conservation of capital
 - Meeting legislative and statutory requirements
 - Reduction in the number non performing staff
 - Business changes to the scope and size of the business

Not all drivers relevant to the outsourcing decision carry equal importance. The framework requires that drivers for outsourcing are prioritised by the organisation as to their importance. The framework will consider in addition to the other two success criteria set out previously that successful outsourcing will require the highest priority drivers for outsourcing to have been met for the arrangement to have been considered successful.

Inhibitors and deliverables

Inhibitors are those factors irrespective of whether originating from internal or external sources that prevent or adversely affect successful outsourcing outcomes being achieved. Inhibitors operate at both the phase and sub phase levels of the framework and need to be dealt with to ensure outsourcing success. Deliverables are those process outcomes including contractual and documentation outcomes expected for each phase or sub phase. Completion of the relevant deliverables for each phase and

sub phase signal the successful completion of that phase or sub phases required in the five phase outsourcing framework.

3.3 The Framework's 5 Phase Outsourcing Approach – Key for Outsourcing Success and Risk Mitigation

In section 2.6, it was presented that a structured and phased approach to outsourcing over the outsourcing life cycle assists in outsourcing success and risk mitigation. Five phases were identified in the literature as comprising defined phases in the outsourcing life cycle. Outsourcing success requires consideration of a defined outsourcing life cycle from the time of initial exploration to the time of expiry of the arrangement. Five phases have been identified and the titles given to each phase are given on the basis that the title is only a general description of the particular phase.

The five phases of the outsourcing process or outsourcing life cycle identified as part of the framework are:

- Phase 1: Setting objectives, preliminary analysis and review of options relating to outsourcing and other options
- Phase 2: Tender, negotiation and selection of successful supplier
- Phase 3: Transition to outsourcing
- Phase 4 : Managing the outsourcing contract
- Phase 5: Contract expiry

The phases are conducted in order commencing with phase 1 and ending with phase 5 to complete the outsourcing life cycle. The phases generally require the completion of the prior phase before commencement of the subsequent phase. In some instances, preliminary work or preparatory work can commence prior to completion of the prior phase such as in the period leading to contract expiry (phase 5).

The adoption of the five phase outsourcing approach assists in:

- Creating structure to the process and ensuring that there is an orderly implementation process
- Risk and risk mitigation strategies are considered as an integral part of the outsourcing process
- Defining duties, roles and tasks required to be implemented at each stage of the outsourcing arrangement
- Imposing disciplines on organisation and supplier to work in a structured manner to meet outsourcing success

Key Features of the 5 Phase Outsourcing Framework

Key features underlying the 5 phase approach to outsourcing are:

- Each phase has its own key requirements, tasks, inhibitors and deliverables required for the next phase to commence
- Each phase starting from phase 1 and ending at phase 5 is completed sequentially
- A later phase cannot start until the prior phase has been completed
- Each phase considers risk and risk mitigation as required and relevant to that phase
- Later phases will borrow as relevant from work and deliverables completed in prior stages
- Poor implementation of a prior phase is likely to have adverse consequences for later phases and ultimately the success of the outsourcing arrangement

3.4 Phase 1 : Setting objectives, preliminary analysis and review of outsourcing as a feasible option

Phase 1 is the initial phase in the outsourcing process and the ultimate success of the outsourcing arrangement will depend on how well this phase is completed. The importance of this phase is that if this phase is not completed properly then:

- Decision to outsource made wrongly or adversely compromised because analysis flawed or inappropriate information adopted at the outset
- The outsourcing arrangement and its objectives, aims and drivers are invalid and not in keeping with organisational objectives and aims
- The risks and risk mitigation strategies have not properly been considered upfront prior to later phases being completed or otherwise the decision to outsource has been made
- Future phases will rely on false premises, information or assumptions
- The functions or services outsourced are strategic or otherwise of a type that should not be outsourced

Risk and outsourcing success

The framework requires organisations as part of phase 1 activities to consider risk in outsourcing arrangements that may impact on success of the outsourcing arrangement. Risk analysis, review and mitigation strategies are required throughout the outsourcing process. Key risk types relevant to outsourcing consist of:

- Vendor Risk (vendor is not suitable or able to carry out duties)
- Reputational Risk (reputation of organisation damaged as a result of the outsourcing arrangement)
- Operational Risk (efficiency and effectiveness of organisation adversely affected by outsourcing arrangement)
- Transfer Risk (difficulty and cost of transferring functions and services back inhouse)
- Financial Risk (financial loss to organisation due to outsourcing arrangement)
- Latent Cost Risk (costs not identified at the time the outsourcing arrangement entered into)
- Business Risk (changing business environment adversely affecting positive outsourcing outcome)

Risk is multi dimensional and not able to be eliminated completely in any outsourcing arrangement. Minimisation of risk and enhancement of outsourcing success requires a process driven or phased approach that is the core of the success factors framework. The 5 phase outsourcing framework has been derived to consider ways to mitigate risk and enhance outsourcing success.

Phase 1 tasks and activities

The framework considers key phase 1 tasks, duties and roles are as outlined in sections 3.4.1 to 3.4.13.

3.4.1 Outsource organisational operational not strategic functions

Outsource operational or 'doing' type functions not strategic functions concerned with the strategic and business direction of the organisation. The distinction between what is an operational function and what is a strategic function is not clear cut.

The key considerations in deciding which functions or services are operational and which functions are strategic involve:

- Assessing materiality and importance of the function and service to strategic direction of the organisation
- Utilise appropriate quantitative techniques (for example matrix and graphical analysis) and qualitative techniques to assess a function's impact on profit generation and business efficiency of the organisation. The more pronounced the impact on organisational profit and business efficiency the more likely it is that the function or service is of a strategic nature and therefore not outsourced.

Inhibitors

Consider and deal with agendas and personal interests of various organisational stakeholders in classification of strategic versus operational functions that may be inappropriate. Obtain senior management support and assistance to deal with these agendas and personal interests to ensure optimal decisions made as to which functions are strategic (not outsourced) and which functions are operational (outsourced).

Deliverables

A proper and objective assessment adopting suitable quantitative and qualitative analysis techniques to assess whether a function is strategic or operational has been performed by the organisation. This allows the organisation to determine the functions to be outsourced.

3.4.2 Setting clear business objectives and drivers for outsourcing

Outsourcing success is measured in terms of meeting the stated organisational aims and objectives expected from the outsourcing arrangement. This requires that clear business objectives and drivers for outsourcing are established from the outset. The key tasks to satisfy this are:

- Define business objectives and aims desired from the outsourcing arrangement in terms of broader organisational goals and not just the corporate real estate division of the organisation
- Define drivers for outsourcing decision
- Consider the needs of all stakeholders by obtaining input from all stakeholders to derive and verify business objectives and drivers
- Consider third party arrangements already in place for conflicts
- Prepare a business objectives matrix specifying broader organisational versus outsourcing objectives to highlight consistencies and divergences between broader organisational and outsourcing objectives.
- Assess and deal with conflicts between stakeholders early on
- Assess the validity of the drivers for outsourcing decision to broader organisational objectives

Inhibitors

Conflicts and individual agendas need to be dealt with early on to ensure that the outsourcing decision is made in as impartial manner as possible. Objective analysis of the drivers, aims and requirements for outsourcing is required. The business objectives matrix represents a good tool to assess objectives and aims desired from outsourcing in an objective light. This tool requires organisational objectives to be assessed against whether outsourcing can meet these organisational objectives.

Deliverables

A statement of objectives, drivers and aims expected from the outsourcing arrangement has been accepted by the organisation as being consistent with overall organisational objectives.

3.4.3 Senior management buy in from the outset of the outsourcing process

Senior management support for the outsourcing process is critical throughout the outsourcing life cycle but certainly it is important at the initial phase when outsourcing is being considered. The tasks required to achieve senior management buy in are:

- Develop senior management buy in to the total outsourcing phased approach from the outset by ensuring that senior management sponsors or champions the outsourcing process from the outset
- Steer decision making in terms of organisational objectives not personal objectives of any particular organisational segment
- Utilise senior management assistance early in the outsourcing process to resolve bottlenecks, impasses and differences as identified
- Obtain senior management assistance to procure resources necessary to outsourcing process
- Procure senior management sponsorship and identify and select a project champion from senior management ranks
- Ensure there is senior manager support for the make up of appointed project steering team and project team leader
- Limit the involvement of senior management to not conflict with the day to day workings of the project steering team
- Identify affected parties and internal/external stakeholders likely to be affected by the outsourcing process
- Require input from all affected parties and stakeholders
- Encourage active participation of major stakeholders on the project steering team preferably or as minimum insist on a consultative role
- Adopt a process of inclusion not exclusion of affected key stakeholders

Inhibitors

Competing demands for resources and differing agendas within the organisation need to be addressed by senior management. Senior management will need to be sold as to the benefits of initiating the outsourcing process and the tasks outlined above.

Deliverables

A formal commitment by senior management to provide resources and backing to the outsourcing process. The formal commitment should also detail the level of resources (human and financial) to be applied to the outsourcing project.

3.4.4 Stakeholder buy in from the outset – utilise senior management assistance as required to meet stakeholder resistance

Stakeholder engagement or 'buy in' is essential. For the purposes of the framework, stakeholder is broadly defined to persons, business units and any other party that is directly or indirectly affected by any outsourcing decision. Encouraging stakeholder engagement is assisted by:

- Identifying those business units or persons likely to be affected by any decision to outsource
- Ensuring that affected business units are represented on the project outsourcing steering committee set up for the purposes of managing the outsourcing process or as a minimum in a consultative role
- Address stakeholder grievances, disputes, resistance and adverse actions to the outsourcing process
- Utilise senior management to address stakeholder grievances and disputes

Inhibitors

Stakeholders may have own agendas that may adversely impact on the outsourcing arrangement. Without broad stakeholder support from the outset, the success of the outsourcing process will be compromised. Stakeholder engagement and senior management assistance to address stakeholder issues may be required. Engagement of stakeholders is also assisted by participation on outsourcing project steering committee that includes senior management representatives and a cross section of representatives of affected stakeholders.

Deliverables

Stakeholder support has been obtained to the outsourcing process.

3.4.5 Establish the project outsourcing team and accountabilities

An outsourcing project team lead by a project team leader is set up at the outset to commence and manage the outsourcing process. The key considerations and tasks required to establish a project team are:

- Define the charter and scope that the team will operate under
- Ensure that the team is a multidisciplinary team comprising representatives of each business segment affected by the outsourcing decision
- Ensure that the establishment of the project team has the approval or sanction of a project champion (most likely a member of senior management)
- Appoint an appropriate project team leader with appropriate skills
- Allocate sufficient resources to the project team

- Sign off by project team of cost budget, accountabilities and timelines and ensure senior management and key stakeholder support
- Assess and clearly define the role of specialised consultants and their ability to assist
- Ensure specialist consultants complement not supplement role of project team

Inhibitors

The availability of suitable and qualified persons to participate in the outsourcing project team may be limited. In this instance there is some argument to seek the assistance of specialist consultants. The experience and ability of the project leader is critical to the success of the project outsourcing team.

Deliverables

A project team led by a suitably qualified team leader is established.

3.4.6 Careful consideration in the selection of the project team leader

Because of the importance of the project leader to the outsourcing process, the framework considers the role and attributes required in a suitable outsourcing project leader. Accordingly the project leader appointment will need guide the first three phases of the outsourcing process as a minimum and perhaps manage the outsourcing process. The attributes and skills required in a suitable outsourcing project leader comprise:

- Leadership skills
- Understanding of organisation and outsourced functions
- Planning skills
- Project management skills
- Selling skills to stakeholders and broader organisation
- Negotiation skills
- Process management skills
- Change management mindset (not set in rigid thinking patterns)

Inhibitors

The organisation may lack a suitable person to run an outsourcing project. This may require the organisation to look outside of the organisation for a suitable person to lead the outsourcing project team.

Deliverables

A project team leader that is suitably qualified is appointed to lead the outsourcing project team.

3.4.7 Establish the business case (especially derivation of base line cost and risk analysis of the proposed outsourcing arrangement)

The project team will be required to prepare a business case to initially review the case for outsourcing versus maintaining the status quo. An important component of the business case will be the compilation of base line costs and risk analysis. A proper business case will consider or utilise:

- Relevant base line costs and risk analysis
- Derivation of base line costs taking into account total costs and life cycle of the various options including outsourcing. This will inturn consider:
 - Direct and indirect costs of outsourcing versus maintaining the functions inhouse
 - Common analysis parameters as to discount rates and interest rates to ensure all options fairly and objectively analysed
- Independent verification of business case premises and base line costs (utilise services of internal or external auditor)
- Risks by category e.g monetary, reputation, service delivery etc
- Proper risk analysis adopting appropriate parameters and methodology including statistical/discounted cash flow analysis where applicable
- A risk analysis in the form of a risk evaluation template outlining : what risks? , when the risk could occur?, what is the risk(s) effect on the broader business?
- The severity of risk identified and offer suggested mitigation strategies for each risk identified
- Consider balanced scorecard analysis (analysis as to whether function would be done inhouse or outsourced if organisation was about to commence trading) to promote open thinking as to risk assessment

Inhibitors

There may be some difficulties in deriving base line costs or identifying risks. Independent audit may assist in maintaining integrity of the base line costs and risk assessment presented in the business case. A flawed business case may adversely impact the outsourcing process.

Deliverables

A business case that details baseline costs and assesses risks of outsourcing. The business establishes whether there is sufficient evidence as to the benefits of considering outsourcing as a concept and participating further in the outsourcing process.

3.4.8 Articulate your service standards and manage stakeholder expectations during the initial phases of the outsourcing process

In addition to baseline costs and risk assessment, the business case and initial review of the project team will be required to address service standard expectations in any outsourcing arrangement. The anticipated services standards and benefits from outsourcing will normally be compared to the existing situation and inhouse service standards. The derivation of service standard expectations from outsourcing will require the business case to address or consider:

- The nature, scope and outline of service requirements and performance standards expected in outsourcing contract
- Stakeholders and seek stakeholder input to business case as required or to verify information as to service standards
- Prioritise expectations on the basis of organisational needs not stakeholders wants or 'nice to haves'
- Manage expectations of senior management and stakeholders against unrealistic expectations of outsourcing outcomes so business case does not misrepresent outsourcing outcomes
- Articulate and explain achievable service standards versus expectations to stakeholders and senior management

Inhibitors

Establishing desired service standards is difficult as stakeholders will have varying opinions as to what constitutes an acceptable performance or service standard in an outsourcing contract. Stakeholder input and participation needs to occur to encourage buy in to the proposed outsourcing service standards. Management of unrealistic expectations is also an important task. Moreover the expected service standards from an outsourcing arrangement will be required to review on completion of the tendering (Phase 2) and implementation (Phase 3) phases of the outsourcing process.

Deliverables

A business case and initial project team review that details and is consistent with the outsourcing service standards acceptable to the organisation including key stakeholders.

3.4.9 Articulate clearly information gaps, problems and limitations of implementing an outsourcing arrangement

From a risk viewpoint any information gaps, problems and limitations that may be incurred need to be considered as part of the business case. If the organisation cannot supply to prospective suppliers a complete information package on the functions and

services to be outsourced then this information gap could adversely affect the performance of later phases of the outsourcing process. Therefore considerations of information gaps, problems and limitations that may occur from outsourcing need to be considered in the business case. Specifically this requires the project team as part of compiling the business case to:

- Consider information gaps, organisational problems and limitations
- Assess severity of information gaps, problems and limitations
- Incorporate information and findings as part of the business case risk analysis

Inhibitors

Not all information gaps, problems and limitations of outsourcing may be known at the time of compilation of the business case. A decision to proceed to further consider outsourcing may be made with incomplete or inaccurate information.

Deliverables

A business case is produced that has considered information gaps, potential problems and organisational limitations in proceeding with an outsourcing option. The risk of continuing with the outsourcing process is assessed in terms of materiality of any information gaps, potential problems or limitations of proceeding with an outsourcing arrangement.

3.4.10 Define a communication strategy tailored to meet the needs of all affected organisational and external stakeholders

The outsourcing process by its nature can be unsettling to employees and other stakeholders. Honest and timely communication is the key from the outset. Accordingly, a communication strategy derived by the project team is required to instil confidence and understanding among affected organisational stakeholders. A suitable communication strategy can be achieved by the following tasks:

- Devise a formal communication strategy and policy for all stakeholders including senior management
- Focus on timely, consistent and accurate information and monitor if this is being achieved throughout the outsourcing process
- Decide on a suitable time, venue and method to communicate commencement of outsourcing process
- Utilise different communication modes and channels to cater for circumstances and organisational requirements
- Focus on risk minimisation and minimise disruption of business operations
- Understand the legal requirements in terms of communicating to affected employees on proposed outsourcing arrangements affecting them

Inhibitors

Communication is difficult where affected employees or stakeholders are scattered in different physical locations. This may impact on the timeliness of communication of major developments during the outsourcing process. Technology such as email notification can be utilised to ensure that communication is made on a timely basis. Timing of announcements of developments in the outsourcing process are affected by confidentiality, situational factors and consideration as to when is the best time to formally announce to stakeholders the commencement of the outsourcing process.

Deliverables

A structured communication strategy tailored to meet the needs of employees and affected stakeholders. The communication strategy is able to be implemented without difficulty throughout the outsourcing process and aims to produce timely, honest and accurate information to stakeholders.

3.4.11 Plan for and deal with human resource issues from the outset

The management of human issues during the outsourcing process is important to the ultimate success of the outsourcing process. Human resource issues are required to be addressed as follows:

- Assess human resource implications, costs and issues as part of the business case addressing any material risks
- Consider and address financial, legal and statutory obligations including reputation of the organisation in dealing with human resource issues
- Devise a strategy to deal specifically with each class of affected employee (those outsourced, those retained, those made redundant etc)
- Devise and implement support strategies to assist affected employees
- Devise human resource issues communication strategy
- Assess and evaluate at this early stage likely candidates either in house or external to assist with post transition management of the outsourcing contract

Inhibitors

Legislative requirements may impose obligations upon the organisation in respect to management of human resource issues during an outsourcing process. Not all human resource issues can be established at the early stages of the outsourcing process.

Deliverables

A researched and carefully thought out human resource policy and strategy to deal with affected staff subject to outsourcing is established which will deal with human resource issues as required throughout the outsourcing process. Risk issues have been addressed and mitigation strategies outlined in the business case.

3.4.12 Research the specific outsourcing market including user experience (visit and talk to other users involved with similar outsourcing arrangement)

The assessment of whether there are suitable suppliers to perform outsourcing services to derive the desired benefits is critical. This requires consideration of supplier options to perform outsourcing services. An understanding of the options available in respect to outsourcing can be enhanced by:

- Research actual outsourcing contracts in place dealing with functions similar to that proposed to be outsourced
- 'Hands on' approach to research, visit and talk to users of relevant outsourcing services
- Utilise feedback to assess potential suppliers and prepare information documentation to suppliers
- Revisit risk considerations, expectations as to service and performance standards on results obtained from this research

Inhibitors

The number of suppliers able to perform the desired outsourcing arrangement may be limited. Information on outsourcing contracts and arrangements are typically kept confidential. Research can be time consuming and the situational factors affecting one organisation may not be relevant to the organisation considering the same supplier and/or a similar outsourcing arrangement.

Deliverables

An evaluation of the scope and nature of the outsourcing market including details of relevant outsourcing contracts of a size and scope proposed for the organisation has been determined by the project team.

3.4.13 Build a culture that values and promotes a partnering approach in any outsourcing arrangement

A successful outsourcing arrangement is predicated on an alliance and partnering approach between organisation and supplier. Notwithstanding that at this early stage the interaction between organisation and supplier is limited, the encouragement of a partnering mindset is important. The encouragement of this and the ongoing development of an alliance and partnering approach with any future supplier of outsourcing services is enhanced by the following tasks:

- Define clearly in the business case the desired outcome of any outsourcing arrangement to be based on alliance and partnering principles
- Define partnering and alliance principles in terms of risk sharing, proper rewards and penalties, transparency, honest and ethical dealings

- Agree within the project team, with senior management and key stakeholders that an outsourcing arrangement based on a partnering and alliance approach is the preferred way to proceed, that is set this mindset from the outset
- Work towards instilling this approach within the broader organisation and address cultural barriers that inhibit a partnering culture being implemented
- Assess organisational culture via a culture audit (review organisational behaviours and ways of working) to ascertain the fit of a partnering culture in the broader organisational culture
- Take suitable actions to rectify any findings from the culture audit that need to be addressed
- Address individual management practices and styles that inhibit a partnering culture with senior management support and assistance if necessary
- Assess ways to 'transform' the organisation to accept partnering and alliance by encouraging managerial discretion, 'intrapreneurship' and otherwise moving away from internally focused organisational behaviours

Inhibitors

The organisation is by nature or otherwise has segments which are openly or otherwise conspiring against the creation of a partnering or alliance culture with any external supplier providing outsourcing services. This 'anti partnering' culture may be difficult to eradicate.

Deliverables

A commitment to partnering and alliance building from the project team and broader organisation stakeholders including senior management has been established and agreed as to the preferred way to proceed with any outsourcing arrangement.

3.4.14 Milestones achieved – Phase 1

At the conclusion of the first phase, the decision to proceed further with the outsourcing process will be made based on the analysis completed during phase 1. The first phase of the outsourcing process will require the consideration or completion of the following deliverables or tasks:

- Objectives and aims of proposed outsourcing clearly enunciated
- Senior management buy in to the outsourcing process
- Project champion nominated to assist the outsourcing process
- Understanding of business objectives and drivers for outsourcing
- Consistency of business objectives and drivers to broader organisational objectives
- Establish a project team with a qualified project leader dedicated to the outsourcing process

- Allocate sufficient resources and provide for a satisfactory operating budget to the project team
- Significant stakeholder involvement from the outset
- Create a partnering mind set in proceeding with the outsourcing process
- Devise a communication strategy
- Devise a human resource strategy
- Signed off business case with proper risk analysis
- Research outsourcing market and feedback
- Conduct culture audit and assess if conducive to outsourcing
- Address required organisational changes
- Building a partnering and alliance culture as an preferred outsourcing approach within the project team, senior management and the broader organisation

The next phase of the outsourcing process (Phase 2) considers the selection of a supplier to perform the outsourcing functions.

3.5 Phase 2 : Tender, Negotiation and Selection of Successful Supplier Phase

This is the second phase required to be completed in the outsourcing lifecycle. Phase 1 has acknowledged that outsourcing has benefits that outweigh the risk involved. Phase 2 is involved in selecting the preferred supplier. The process to do this is outlined in sections 3.5.1 to 3.5.19.

Phase 2 involves the initial interaction with suppliers. At the end of phase 2, the successful supplier to perform the outsourcing services will be selected. The key tasks in this process are:

- Revising human resource and communication strategy set in phase 1 to cater for phase 2
- Assessing the capabilities of supplies initially in general terms and to establish the 'short list' via a capability statement
- Preparing and issuing a formal tender document or request for proposal from suppliers
- Assessing the tender responses adopting a variety of quantitative and qualitative assessment techniques
- Selecting a preferred tender and announcing the decision to affected organisational stakeholders
- Preparing for the transition to outsourcing (phase 3)

3.5.1 Completing the preparatory work before the commencement of the formal tender

Notwithstanding that there has been a significant amount of analysis and evaluation in phase 1, the expectation is that to ensure the most effective tender process the project team has completed a variety of 'pre tender' tasks outlined as follows:

- Assess the required preparatory work needed to be done before formal tender
- Devise a pre tender capabilities statement to be issued to prospective suppliers
- Utilise the capabilities statement and pre tender process to position with suppliers the outsourcing process in general terms and highlight the format of the tender and the steps in the outsourcing process
- Request a capabilities statement response from selected suppliers identified to receive the capabilities statement
- Collate data gained in terms of experience, performance and track record as ascertained for each supplier who participates in the pretender process
- Revise list of suitable suppliers in the light of the information gained from capabilities statement response (cull original supplier list and shortlist suppliers to proceed to formal tender process)
- Revisit outsourcing objectives, drivers for outsourcing, business case, risk analysis and service and performance standard expectations in the light of supplier responses
- Do not prolong pre tender process and get suppliers offside, keep moving with the process and do not stall without keeping suppliers informed
- Utilise the information provided to suppliers to position the process and gain valuable feedback prior to formal process commencing
- Short list the suppliers to participate in tender and inform those who missed out
- Prepare tender documentation in readiness for tender process

Inhibitors

Suppliers may withhold information until the tender proper commences and therefore the capabilities statement responses or pretender supplier requisitions may not yield the required information.

Deliverables

A general view of the number and the capabilities of suppliers likely to be able to participate in the tender can be formulated in the pretender analysis of suitable suppliers. This will assist in tender planning and limiting the tender to suitable suppliers, thereby minimising time and cost of conducting the tender process.

3.5.2 Tender documents require clear statement of outsourcing scope, objectives and performance expectations in absolute and relative terms

Prospective suppliers must understand the scope of the outsourcing arrangement and the aims and objectives proposed by the organisation for the outsourcing arrangement. The tender documentation is to be prepared taking into account the following tasks or considerations:

- Detail clearly the desired outsourcing scope and objectives in any tender documentation
- Outline the drivers for outsourcing to give suppliers a guide as to what the organisation is hoping to achieve from the outsourcing arrangement
- Provide them the 'mission statement' desired for the outsourcing arrangement
- Adopt both absolute and relative measurement standards in the tender documentation when discussing costs and performance outcomes expected from suppliers in the outsourcing arrangement
- Ensure Service Level Agreements forming part of the outsource tender documentation are consistent with the broader organisational objectives and needs
- Conduct a tender documentation consistency check review to ensure outsourcing scope, objectives and drivers specified in tender documentation are in line with signed off business plan and broader organisational objectives
- Ensure the consistency check is completed independently by a person not associated with the outsourcing project team, suggest internal or external auditor

Inhibitors

There is no standard or approved format for a tender document. Each outsourcing tender requires its own tender documentation format to reflect the circumstances.

Deliverables

The tender documentation clearly states objectives, aims and scope of outsourcing desired by the organisation. A supplier can readily understand the scope, aims and objectives of the proposed outsourcing arrangement.

3.5.3 Use tender process and produce documentation consistent with establishing a partnering approach and mind set

It is important that the tender documentation is framed and worded in a manner to encourage the building of a partnering and alliance relationship between organisation and supplier. This can be achieved by the following:

- Focus on ethical tender process to demonstrate partnering approach

- Appoint an ethics and compliance officer to monitor the outsourcing process through the supplier selection stage
- Focus on a partnering attitude and ensure that process and documentation are framed in form and substance as a true partnering process
- Avoid adversarial approach to negotiations
- Avoid tender documentation and/or correspondence with suppliers in form and substance that is non partnering and dictatorial in format
- Work throughout the tender process on organisational culture and management practices to promote partnering approach and set it as a management discipline throughout the organisation
- Demonstrate and facilitate partnering during the tender process by:
 - involving stakeholders especially in signing off to service standards in the tender documentation,
 - adopting a fair and consistent approach in dealing with suppliers and encourage supplier innovation within limitations in the tender process

Inhibitors

Organisational culture may be at odds with a partnering and alliance building strategy proposed for the outsourcing contract. The project team's conduct in negotiations and the tone and language adopted in the tender documentation should demonstrate that the organisation has a genuine desire to operate the outsourcing arrangement on partnering and alliance principles.

Deliverables

Tender documentation and tender process are clearly based and implemented on partnering and alliance principles. The tender documentation clearly defines scope, aims, objectives and drivers of the proposed outsourcing arrangement.

3.5.4 Establish a tender process with stakeholder and management buy in to timetable, resources allocated and key performance criteria

The tender process will be seriously compromised if sufficient resources are not allocated to the tender process and the deadlines set in the tender documentation are met. The meeting of tender deadlines and maintenance of required resources to the tender process are assisted by the following tasks and considerations:

- Obtain from key stakeholders within the organisation and from selected third parties relevant to the delivery of inhouse functions support for timelines set out in the tender documentation
- Allocate sufficient financial resources to project team from key stakeholders
- Allocate sufficient human resources to the project team

- Ensure representatives from key affected organisational stakeholders are on project team
- Obtain broad organisational stakeholder input to service level standards and performance standards specified in the tender documentation prior to release of tender documentation
- Refer continually to senior management to resolve blockages, impasses and personal agendas in the setting of service standards and performance standards

Inhibitors

The tender process may incur unforeseen roadblocks from within and outside the organisation that may adversely impact on tender deadlines.

Deliverables

The project team has been properly resourced to conduct the tender. In addition, the tender has strict deadlines and milestones set. Input from affected stakeholders has been obtained ahead of the documentation going to suppliers.

3.5.5 Develop tender guidelines, criteria, weightings and scoring system to assist with selection

Supplier responses must be evaluated in an objective manner to not only demonstrate an impartial and ethical process but also to ensure that an optimal decision has been made. To ensure an objective manner of evaluating supplier responses to the tender, it is suggested that actions are taken as follows:

- Ensure tender evaluation criteria are defined and priorities allocated consistent with assessing the ability of the tender party to meet the objectives, drivers and aims of the outsourcing arrangement proposed.
- Formulate evaluation criteria in clear to understand terms, that is define for example performance standard criteria in specific not general terms
- Adopt consistent tender evaluation, measuring and scoring system for all suppliers with weighting system of evaluation criteria signed off by senior management and project team after taking input from stakeholders
- Limit qualitative measures for qualitative criteria and quantitative measures for quantitative criteria
- Assessing strategic fit, partnering potential and relationship dynamics (intangible criteria) should be supported by:
 - available data and supporting commentary from project team
 - commentary from the project team as to how the scoring and conclusions for these 'intangible' criteria were formed

- Adopt key risk issues identified from the business case and score key risk issues separately and ability of the supplier to mitigate these risks
- Ensure and continually monitor that the evaluation process is consistent, standardised and even handed

Inhibitors

Each evaluation technique (whether quantitative or qualitative) has its limitations and the results must be assessed with the limitations of the particular evaluation technique in mind. Supplier selection risk (risk of making sub optimal decision) can be minimised however by employing a number of quantitative and qualitative evaluation techniques.

Deliverables

Qualitative and quantitative techniques have been utilised to objectively score each response and thereby ensuring a more objective evaluation process. The scoring criteria, evaluation process and recommendation are able to be supported by an impartial, objective and ethical process.

3.5.6 Communication strategy to be formulated to cater for management, business units and all stakeholders

The tender process puts outsourcing on the public record and the broad organisation is now aware of the move to outsource inhouse functions. There is therefore possibility of misinformation and accordingly an effective communication strategy during the tender is required to be created to minimise staff anxiety and disruption to operations. Therefore an effective communication strategy is required. An effective communication strategy can be assisted by the following actions:

- Decide the most efficient and effective communication strategy taking into account the needs of the organisation and affected stakeholders during the tender process
- Consider the legal and legislative requirements of outsourcing arrangement especially in respect to staff
- Review timelines as to feasibility especially in respect to human resource time requirements based on feedback obtained during the tender process
- Adopt appropriate communication strategies and utilise different technology (mail, internet, email, fax or face to face) to suit the profile and location of the stakeholder affected by the outsourcing process
- Do not have a 'one fit all' communication strategy. Tailor the communication strategy to the needs of the various stakeholders affected by the outsourcing process
- Understand and deal with the level of uncertainty the announcement of an outsourcing process has on affected staff

- Deal with the why, what, when and how questions of outsourcing to affected staff paying particular emphasis on what it means to them

Inhibitors

Media speculation, rumours and misinformation can still spread despite the best efforts of the project team. Continual, timely and accurate information and disclosure to affected stakeholders is the best method to counter this.

Deliverables

A communication strategy and policy formulated to inform affected stakeholders on a timely basis during the tender process.

3.5.7 Internal review and audit of the supplier responses as to risk factors to consider or mitigate during later phases

Known or new risk factors are considered as part of review of the tender responses. These risk issues and their material while assessed by the project team should also be assessed by an independent party such as internal or external auditor as deemed relevant. Audit response to risk issues identified in the tender responses are required to protect the organisation from risk exposures which are material. Auditor response and review of risk issues will be required to:

- Engage internal audit review of risk issues highlighted from the feedback obtained from the tender responses
- Consider the acceptability of risk issues and mitigation strategies pertaining to assets, files, documentation, integrity of supplier systems
- Determine action to risk issue based on audit review and recommendation

Inhibitors

The tender responses will not necessarily identify all risks (potential or perceived) and therefore not all risks are assessed by independent or auditor review.

Deliverables

An auditor response, recommendation and proposed action plans on risks detected from the tender responses is to be provided to the project team. The auditor views on the materiality of the risks identified need to be considered by the project team and senior management.

3.5.8 Adopt a structured tender response verification and supplier reference checking process

Reference checking is an important verification tool to establish the credibility and suitability of a prospective supplier. Supplier selection risk is the risk of selecting a suboptimal supplier. A structured approach is required to minimise supplier selection risk. The following is suggested to take place to assist with this:

- Conduct proper and structured question and answer reference checks for as similar as possible live outsourcing arrangements where available
- Take into account privacy and trade practices legislation when conducting reference checks at supplier's client premises
- Conduct reference checks at location of supplier current clients without supplier presence if possible
- Conduct a verification review on responses by supplier to critical matters and ask for evidence on assertions made where the evidence is not supplied as part of the response
- Verify as much as possible using source data and information conducted in a live outsourcing environment as to supplier's system capability
- Assess and detail clearly areas of service and track record in delivering outcomes to other clients
- Perform on supplier systems trial runs using organisational sample data to review supplier system processes, system integrity and outputs
- Reassess risk issues in the light of information obtained in the structured and reference checking process

Inhibitors

Reference sites or clients nominated by the supplier may not be relevant or otherwise the particular outsourcing contract of the nominated client is of a lesser scope or standing than envisaged. The testing of data on supplier systems may be time consuming and require significant resources.

Deliverables

A reference check is obtained by the project team that verifies and checks the substantive detail and assertions made by the tender party in its response.

3.5.9 Service delivery expectations and performance standards to be clear and precise in tender documentation

Suppliers need to be clear as to the required service delivery and performance standards expected from them. In addition to the standard information requirements for any tender documentation, service expectations and performance standards are also outlined in the tender process. Certain tasks to assist in clarifying service delivery and performance standards in the tender documentation consist of:

- Ensuring prospective suppliers understand that service delivery expectations and performance standards have been accepted by senior management with input by stakeholders.
- Producing tender documentation that has clear delivery expectations and performance standards

- Detailing the broad scope, aims and objectives of the outsourcing arrangement and the performance and service delivery standards required to meet these standards
- Adopting in the tender documentation recognisable industry terms
- Defining clearly those terms which are not easily recognisable such as organisation terms and acronyms using a glossary as part of the tender documentation
- Specifying clearly the quantitative measures and tolerance limits to be utilised in any outsourcing arrangement
- Outlining qualitative measures proposed to be used in measuring service delivery and performance standards
- Highlighting separately legislative requirements and business imperatives that must be met as part of the outsourcing engagement
- Linking performance standards and service delivery requirements to clearly specified rewards and penalties

Inhibitors

Reference sites or clients nominated by the supplier may not be relevant or otherwise the particular outsourcing contract of the nominated client is of a lesser scope or standing than envisaged.

Deliverables

A reference and supplier verification check is obtained by the project team that verifies and checks the substantive detail and assertions made by the tender party in its response.

3.5.10 Address audit concerns based on supplier responses to the tender process

Risk assessment is critical to the outsourcing process. In the event that the risks from outsourcing are deemed to be material, the decision may be made not to continue with the outsourcing process because of the potential adverse impact on the organisation. Risks are required to be assessed during the tender process. A comprehensive risk assessment process during the tender is assisted by the following tasks:

- Assess if the tender process has highlighted any new risk issues from those identified in phase 1
- Assess risk mitigation strategies for any new risk issue identified
- Quantify the risk in terms of materiality and business continuity issues
- Assess if the original objectives, drivers and aims set in the business case still achievable in the light of the new risks or other matters identified as a result of the tender process

- Assess the risk to assets, files and continuity of business continuity
- Engage an independent party such as an auditor or suitably qualified project team member to review and comment on these new risks identified
- Assess from the auditor report if the risk identified is of such magnitude to affect or terminate the outsourcing process going forward

Inhibitors

Not all risks can be detected. Accordingly the focus is on detecting material or substantive risks to the organisation from outsourcing.

Deliverables

A risk assessment analysis and mitigation strategy has been completed by an independent party such as an auditor and utilised to assess the materiality of overall risk from outsourcing.

3.5.11 Adopt a 'win win' approach to negotiations during the tender process

Negotiations should be conducted on a win win basis to maximise supplier cooperation and performance. Adversarial or terse negotiations typically produce suboptimal results. Certain strategies to achieve a win win outcome are outlined as follows:

- Adopt a negotiation strategy that builds trust and rapport
- Decide who will negotiate from the project team on behalf of the organisation
- Adopt a 'win win' approach in form and substance. This is achieved by:
 - Encouraging consensus not argument
 - Not sweating over the small stuff
 - Demonstrating a desire for risk/reward sharing
 - Engage in open transparent and timely disclosure
 - Adopting plain English contract drafting of documentation
 - Allowing within appropriate limits some tolerance, give and take in meeting service standards and performance criteria
 - Having a proper, fair and ethical reward and penalty regime that is designed to focus on key outsourcing objectives, aims and drivers and not the small stuff
 - Tolerance setting, grace periods for difficult service delivery targets and not creating an in scope/out of scope approach to all aspects of the outsourcing contract
 - Allowing flexibility and ability for contract variation and renegotiation
 - Provide scope to vary contract arrangement as circumstances change

Inhibitors

Not all suppliers may wish to participate on the basis of a win win basis in tender negotiations. Where there is say one feasible option to choose from it may difficult to determine the conduct of negotiations if that supplier senses its bargaining power is superior to that of the organisation.

Deliverables

A negotiation outcome that has created a partnering and alliance approach between supplier and organisation and the contracted outcomes are deemed fair and reasonable for both parties.

3.5.12 Timeliness and ethical behaviour in making and advising decision to suppliers

Acting ethically and keeping to stated timelines assists in keeping tender parties interested and participating in the tender process. To address any concerns as to probity of the process, a compliance and ethical policy should be in place and monitored continually. The tasks to maintain supplier interest during the tender process and maintain overall process probity can be outlined as follows:

- Monitor and take action to ensure that the outsourcing process is in line with timetable advised to suppliers
- Ensure delays and other variations to the outsourcing program are communicated to suppliers in a timely manner
- Manage media exposure and scrutiny to minimise reputation risk
- Utilise a compliance or ethics officer to monitor the process and report on breaches or ethical issues to the project team leader
- Provide a forum that is accessible and open to all suppliers and all suppliers are treated equally and fairly in their ability to participate and provide feedback
- Obtain signoff from the nominated compliance officer or other responsible party to the tender and selection process has been conducted in an ethical manner

Inhibitors

Timelines are not always under the control of the project team as there will be unforeseen factors. However, the project team should keep the prospective suppliers informed of delays or variations in the timetable.

Deliverables

The timelines are monitored continually, delays advised to all affected parties. The compliance and ethical policy in respect to probity of the tender process is monitored continually to ensure it is consistently being applied throughout the tender process.

3.5.13 Simple plain English worded contract specifying contract terms and conditions in a clear manner

Any formal outsourcing arrangement will be subject to a formal legal contract. Notwithstanding it is a legal document, the outsourcing contract should be clear and understandable by the supplier and organisation. Developing plain English, easy to follow and understandable contract documentation is enhanced by adopting the following procedures:

- Establish contract terms in plain English and in clear and concise terms
- Outline outsourcing scope and objectives clearly and upfront in the contract
- Detail service delivery and performance standards
- Identify and articulate partnering principles in the contract and especially how the arrangement proposes to achieve them
- Outline information gaps in the information provided
- Specify clearly monetary values in contract including performance bonuses expressed in terms of a base and a performance component
- Avoid convoluted or complex monetary payment formulas or approaches
- Outline proposed payment escalation process
- Highlight dispute resolution procedures
- Clearly specify rewards, penalties and variation rights to the contract
- Impose a termination process regime within the contract specifying termination events , rights and obligations of each party
- Derive a risk and reward sharing table and incorporate in the contract
- Review overall all terms and conditions to ensure that the contract allows for true reward and risk sharing
- Define definitions of key terms as a glossary to the contract

Inhibitors

There is no standard contract template that can be used for all outsourcing contracts. Typically outsourcing contracts are tailored to the individual circumstances of the outsourcing arrangement. Contract formation can be time consuming and costly exercise.

Deliverables

A plain English contractual documentation is created that can be understood by all and interpreted in the same manner by the parties.

3.5.14 Focus on risk/reward and rewards for bettering set performance standards in the outsourcing contracts

Supplier interest will be on rewards available to it by surpassing set performance standards while the organisation interest will be on minimizing risk. The outsourcing contract can account for rewards and address risk/return by taking into account the following tasks and considerations:

- Derive a suitable risk/reward table concerned with specification and allocation of risks between supplier and organisation
- Specify performance standards clearly – choose suitable measurement metrics, achievable standards and measurement criteria
- Ensure performance standards consistent with scope, aims and objectives of the outsourcing arrangements
- Set suitable rewards for achieving above performance standards set – hurdle to achieve rewards to be neither too easy or too difficult
- Ascertain that the risk / reward sharing regime is set fairly and equitably
- Assess if any future legislative changes and/or non foreseeable events causing upward pressure on work loads to do not penalise the supplier
- Assess the suitability of return to the supplier under the contract
- Allow for negotiation to the risk and reward sharing regime, it is not a precise art
- Define non negotiable risk boundaries that supplier has to meet or be liable for
- Set performance bonuses and rewards using proper metrics and evaluation criteria, agree upfront with supplier, avoid leaving open ended or unresolved in the contract
- Match performance reward to specific service standards and/or performance criteria

Inhibitors

Rewards may be set too high or too low. Until the contract is in place and running, it is difficult to assess whether the performance standards have been set too low or too high.

Deliverables

An agreed reward structure for performance of service delivery that takes into account the relative risks to be met by the organisation or supplier.

3.5.15 General considerations in drafting an outsourcing contract

Outsourcing contracts embody a number of contract terms and conditions designed to protect the organisation and minimise the risks to the organisation. Some of the guiding

principles suggested to be incorporated into an outsourcing contract to protect the organisation are noted as follows:

- Understanding that the contract is a legal document serving a number of other objectives apart from legal
- Ensuring the contract is strong on corporate governance
- Ensuring the thrust of the document is to engender partnering
- Keeping in mind no template or draft of other contracts will serve the purpose for all outsourcing arrangements.
- Looking at each outsourcing arrangement as a separate arrangement with own needs and not expecting a standardised approach to any outsourcing arrangement. Each outsourcing arrangement requires its own contract to suit its particular arrangement, terms and conditions. The documentation must have provisions to allow for changing circumstances, variations to terms and ensure it can be changed without some rigid or restrictive process in the future
- Ensuring that distinct sections in the contract focus specifically or contain details on:
 - Outsourcing objectives, aims and scope
 - The organisations mission, values and drivers to outsourcing
 - Services to be outsourced
 - Services delivery and performance standards
 - Risk sharing table and/or risk/reward table
 - Partnering principles – how to achieve partnering
 - Continuous improvement
 - Communication strategy
 - Discretions and approval limits/process
 - Dispute resolution regime
 - Relationship management
 - Corporate governance principles and ongoing compliance to statutory and legislative framework
 - Pricing and reward principles with flexible provisions for variation subject to changing circumstances
 - Termination and expiry principles
 - Rights of each party at expiry
 - Risk/reward sharing table

Inhibitors

There is a danger that substantive provisions in the contract have either been omitted or otherwise not properly drafted. Given the importance of the outsourcing documentation, the documentation even if in draft should not be issued to the supplier

until legal signoff has been obtained or clearance given to provide a copy of the documentation to the supplier.

Deliverables

The contract is a comprehensive, plain English and clear legal document. An agreed reward structure that takes into account the relative risks to be met by the organisation or supplier and rewards the supplier for achieving beyond set performance targets.

3.5.16 Contract penalties, termination provisions and contingencies are clearly defined in the contract

The outsourcing contract is typically set for a fixed term and accordingly there needs to be suitable provisions to handle termination or expiry of the contract. It is important that the parties understand how the contract is brought to an end or otherwise ended for a variety of reasons agreed upfront. The following considerations are outlined as necessary considerations in addressing contract expiry or termination:

- Ensure termination provisions within the contract can take into account business continuity and deal with file and asset transfers as required
- Ensure termination provisions have addressed risk and cost concerns by ensuring:
 - Ability for organisation to terminate arrangement in an efficient and effective manner
 - Risks issues in termination identified and how are they dealt with in contract
 - Incentives or penalties imposed to cooperate in a termination scenario
 - Penalties within a contract are:
 - Fair, equitable and properly defined terms and conditions
 - Designed to mirror accountabilities and responsibilities of the parties
 - A tool to reduce behaviour of supplier that increases risk in contract
 - Avoid penalties for small stuff, minor indiscretions

Inhibitors

Contract provisions assist in addressing risk as a result of terminating the outsourcing contract but do not entirely eliminate the risk of terminating an outsourcing contract for non performance by the supplier.

Deliverables

Contract provisions incorporated in the contract outline in clear terms the obligations on the supplier and organisation in the event of contract termination or expiry.

3.5.17 Communication of transition process to affected stakeholders within the organisation once the tender is awarded

The awarding of the outsourcing contract to the successful tender party requires that the decision be communicated in a proper and efficient manner to not only the suppliers but also to affected staff. The following is designed to assist in formulating a proper communication process to both suppliers and stakeholders within the organisation:

- Defining a clear communication strategy prior to transition process commencing
- Allowing for proper feedback from affected stakeholders
- Taking into account legislative and industry requirements and work place agreements in setting performance standards
- The initial communication strategy at the time of awarding the contract to the successful supplier will serve to:
 - Introduce the supplier to staff and other organisational stakeholders
 - Address any misconceptions , deal with rumours and set clear path and direction
 - Communicate in a manner that is designed to create a close working relationship between supplier
 - Confirm on going management support
 - Clearly outline the outsourcing transition process, deadlines, timelines for different process and affected staff

Inhibitors

Affected staff and other stakeholders will no doubt be apprehensive and have formed opinions (rightfully or wrongly) about the outsourcing process and affect of this process on them. There is often nothing that can be done to eliminate entrenched views of affected staff in respect to the outsourcing process or likely outcomes.

Deliverables

A communication strategy that focuses on easing the stress and concern on staff and other affected stakeholders.

3.5.18 Appoint an outsourcing transition team and a transition team leader

Transition to outsourcing has its own skill set and the initial project outsourcing team may or may not have the expertise to manage the transition to outsourcing. Typically, a transition team and transition team leader is required to steer the outsourcing process into the next phase of the outsourcing process being the transition from performing the functions in house to having them performed under an outsourcing contract. The process to do this is summarised as follows:

- Appoint a suitably qualified transition team and transition team leader
- Attributes of a transition team leader would generally entail:
 - Project management skills
 - Strong knowledge of the business and industry
 - Ability to engender support from the all levels within the organisation
 - People handling skills
 - Understand alliance and partnering philosophies
 - Delegation skills
 - Understanding and focus on partnering and alliance
 - Problem solving skills
 - Dispute handling skills

Inhibitors

The skill set required in persons to participate in a transition team may not be present within the organisation. It is not always the case that the initial outsourcing project team and team leader have the skill set to participate in the transition team.

Deliverables

An appointment of a transition team and team leader is made. Their role is to guide the organisation during the transition phase of the outsourcing process.

3.5.19 Acknowledge and deal with culture differences between organisation and supplier

Culture differences that create angst between supplier and organisation need to be addressed as early as possible and not left to fester. Left to fester, culture differences of an adverse nature can create tension and ill feeling between supplier and organisation. Strategies to deal with adverse culture differences are suggested as follows:

- Address early cultural differences between supplier and organisation
- Embrace differences as part of the outsourcing process
- Dispel and deal with entrenched organisational attitudes and resistance to change largely role of transition team leader

Inhibitors

Cultural differences cannot be eradicated. The focus is on addressing those cultural differences and practices that creates tension and adversely affects the working relationship between supplier and organisation.

Deliverables

An environment is created where cultural differences are acknowledged and addressed to ensure that they do not cause difficulties in the working relationship between supplier and organisation.

3.5.20 Milestones achieved – Phase 2

At the conclusion of the second phase, a supplier will have been selected and an outsourcing contract entered into. The various tasks and milestones pertaining to Phase 2 can be outlined as follows:

- Tender commenced
- Tender documentation issued
- Tender responses received
- Tender responses evaluated
- Successful tender party announced
- Risk analysis and evaluation of supplier considered
- Risk principles embodied into contract in the light of risk analysis
- Contract created and entered into by supplier and organisation
- Preferred supplier selected and announced
- Transition team and team leader appointed

As a final part of phase 2, a transition team is established and transition team leader is appointed. The transition to outsourcing is considered as part of phase 3.

3.6 Phase 3: The Transition Phase

Transition involves moving from functions previously performed in house to the proposed outsourcing arrangement under which the functions will now be performed. The transition phase can 'make or break' an outsourcing arrangement. A poor transition will create difficulties for management of the outsourcing contract. Accordingly, there are a number of tasks and activities that are paramount to a successful transition. These are outlined in 3.6.1 to 3.6.14.

3.6.1 Establish a workable transition program with defined timelines and milestones

The transition program is set at the outset of phase 3. The purpose of the transition program is to map out the transition process to ensure it is conducted in the most efficient and effective manner. Some suggested considerations to take into account in implementing a workable transition program are outlined as follows:

- Revise outsourcing transition activities, tasks, timelines and milestones in the light of any new information gained from discussion with supplier and organisational stakeholders
- Deal early with any delays or blockages that may affect transition program
- Build in slippage and delays into milestones and timelines

- Senior management to confirm support for transition process as part of ongoing commitment to transition process
- Ensure proper resource allocation (human and financial) to the transition team

Inhibitors

The transition program is subject to many variables that cannot be controlled and this may impact adversely on timetables and implementation programs. Delays may cause uncertainty among affected staff.

Deliverables

A workable, realistic and sound transition program with set deadlines and milestones is established.

3.6.2 Establish communication channels during the transition phase

Proper and timely communication is important in this phase of the outsourcing process. Without the establishment of proper communication channels and the development a proper communication policy the transition program may struggle to gain staff and stakeholder support. The setting of proper communication channels and policy will involve the following activities:

- Establish a communication strategy to deal with transition from the outset of the transition process
- Utilise different technologies and communication channels to suit needs of different stakeholders when communicating transition progress
- Provide for feedback during transition process
- Act on feedback especially from affected staff gained during the transition process

Inhibitors

At the time of the transition phase, the attitude to outsourcing is likely to be different than the earlier phases of the outsourcing process. It is now real as against a concept in phase 1. The fact that outsourcing is now real may create uncertainty. Staff and stakeholder concern as to what outsourcing means to them will be an issue to deal with. There is a possibility of misinformation and rumour affecting the views of staff and stakeholders.

Deliverables

The communication channels are established together with a policy derived to appease staff and stakeholder concern. Use of different communication channels as appropriate and timely dealing with affected staff feedback is critical to maintain support and momentum to the outsourcing process.

3.6.3 Transition team to create a partnering and alliance mindset between supplier and organisation key staff in outsourcing contract

The transition phase is the first time that a working relationship is established between supplier and organisation. From the outset, a partnering and alliance mindset needs to be established so that it can continue when the contract goes live at the start of phase 4. Some suggested ways to nurture a partnering and alliance mindset during the transition phase is outlined as follows:

- Demonstrate partnering and alliance mindset by actions not just words
- Create a partnering and alliance mindset and reality by:
 - Joint training, presentations and education
 - Training and re-education of staff to be transferred
 - Dealing with culture issues at supplier and organisation level
- Dealing with staff problems especially those not wishing to embrace change
- Engage the services of senior management to deal with uncooperative staff
- Dealing with any cultural or personality conflicts between supplier and organisation staff
- Assess training needs of transferred staff versus retained staff

Inhibitors

Cultural differences and personality conflicts between organisation and supplier staff may affect the working of the transition. Supplier and organisation senior management need to jointly address these concerns in the event that the transition team cannot deal with this with supplier representatives.

Deliverables

The partnering and alliance mindset has been established by the organisation and supplier as the preferred manner to operate the arrangement.

3.6.4 Establish operating authority decision making and discretion levels between the supplier and organisation

During transition, the authority and discretion levels between supplier and organisation are set and agreed between the parties. These authorities and discretions allow the contract to be run efficiently yet preserving audit requirements and manage risk concerns. The establishment of authority and discretion levels typically requires the following actions:

- Set authority and discretion levels appropriately to ensure efficient management of the contract
- Consider risk and materiality in setting the authority and discretion levels
- Avoid rigidity in setting authority and discretion levels

- Refer to audit requirements pertaining to authority and discretion levels
- Avoid senior management making all decisions or being referred all decision making, expect discretions and authority levels to be acted on in day to day decision making

Inhibitors

The authority and discretionary levels set at the transition phase can only be preliminary and may need to be varied in the light of experience of managing the contract.

Deliverables

Clear authority and discretion levels set and agreed to between organisation and supplier to ensure the contract will run as effectively and efficiently as possible.

3.6.5 Cement a working partnership culture and commence a process of continuous improvement of contract delivery standards

Outsourcing provides opportunities to improve existing business processes and ways of working. A close working partnership and culture of continuous improvement provides for improved operational efficiency and effectiveness. Encouraging a culture and process of continuous improvement can be achieved as follows:

- Develop continuous improvement as a cultural practice from the outset by:
 - Developing and encouraging implementation of new approaches
 - Challenging the status quo within organisation and supplier
 - Fostering continuous improvement in the performance of the functions that have been outsourced
 - Continuing to look for ways to foster service improvement
 - Incorporating continuous improvement as an ongoing process between supplier and organisation

Inhibitors

Resistance to change from staff and other stakeholders needs to be dealt with.

Deliverables

A working partnership and continuous improvement program and policy implemented by supplier and organisation are established.

3.6.6 Develop and encourage a joint problem solving approach between organisation and supplier

Outsourcing arrangements need to deal with day to day problems and issues pertaining to delivery of the service standards and functions outlined in the contract. This requires cooperation between supplier and organisation to achieve. A close working relationship between supplier and organisation can be developed when both

view problems and day to day issues as a joint concern. This assists in creating a joint problem solving regime. A joint problem solving regime can be developed by considering the following:

- Addressing major problems and issues quickly and in a spirit of cooperation
- Avoiding blame game as a means to deal with problems
- Making problem solving a joint responsibility for major issues and challenges
- Localising problem solving and dispute resolution for lesser issues and problems requiring to be dealt quickly and expediently

Inhibitors

The contract will have defined roles and procedures for organisation and staff. There may be a tendency for the parties to be rigid in moving away from a strict interpretation of whose role it is under the contract.

Deliverables

A joint problem solving regime and policy approved and implemented by supplier and organisation is in place.

3.6.7 Address strengths and weaknesses of data, systems and information provided to supplier and organisation

Risk analysis and mitigation strategies are important in the transition phase. Problems and risks identified during the transition phase of the outsourcing process can be acted upon before the outsourcing contract commences. The transition process will highlight risks in supplier systems, data handling and integrity of information. These risk need to be addressed ahead of the outsourcing contract going live. Certain tasks proposed to address strengths and weaknesses and therefore deal with potential risk factors are outlined below:

- Understand transition stage has a risk reduction focus
- Review systems and data limitations, interfaces, assess and quantify the risks discovered as part of the transition in respect to the information obtained
- Perform suitable testing of data, systems and operational processes and deal with problems/issues discovered

Inhibitors

Some outsourced functions may not lend themselves to testing and accordingly any problems or risks cannot be identified at the transition stage.

Deliverables

A review and evaluation of the key strengths and weaknesses of systems, data and operations will have been completed ahead of the contract going live. The transition process will have considered and dealt with appropriate risk mitigation.

3.6.8 Audit internal audit signoff to suppliers, systems, processes and management practices

It is good practice to have the organisation's internal audit team sign off supplier's systems and practices. This provides an independent overview and gives comfort that in addition to the transition team another party has formed an opinion on the supplier's systems, processes and management practices. The internal audit review and signoff to supplier risk, systems, processes and management practices would consist of the following tasks:

- Undertake an internal audit review of supplier systems, processes and management practices during the transition process to reassess supplier and outsourcing risk assessed in prior phases and devise suitable risk mitigation strategies.
- Ensure sign off to be provided by internal auditor before proceeding further with outsourcing process and any recommendations to be implemented by transition team

Inhibitors

Constraints in time, resources and limitations in the scope of audit conducted may not capture all material matters in respect to the supplier's systems, processes and management practices.

Deliverables

A review and evaluation of the key strengths and weaknesses of systems, data and operations will have been completed ahead of the contract going live. The transition phase represents the last opportunity to assess supplier and outsourcing risk before the contract goes live.

3.6.9 Develop a rigorous organisational, management and stakeholder reporting regime

The reporting framework that the supplier and organisation will operate under when the contract goes live is developed during the transition phase. It is important that any reporting regime is workable and efficient in its implementation. Some important considerations to do this are outlined below:

- Ensure a proper communication and reporting protocol is developed
- Provide a proper feedback mechanism
- Cater the reporting framework for different needs within organisation
- Ensure performance reporting considers broader organisation needs , information requirements and presentation of information

- Encourage engagement of process by all and not rely totally on direction or coercion to participate in reporting and monitoring the day to day service delivery

Inhibitors

Any reporting framework developed during the transition phase can only be preliminary and subject to change as the contract evolves and circumstances dictate the reporting framework to change.

Deliverables

A reporting framework agreed to between the supplier and organisation has been implemented for use when the outsourcing contract goes live.

3.6.10 Communicate continually transition progress to stakeholders and deal with impediments to progress

Impediments and roadblocks will occur during the transition phase. These need to be dealt with quickly and effectively or else they will adversely impact on the workings of the contract (phase 4). Some points to keep in mind to assist with communication and dealing with impediments to transition progress are:

- Communicate broadly and often ensuring all affected stakeholder and senior management are aware of transition progress and any impediments
- Identify difficulties and report on early on to senior management for assistance as relevant
- Inform honestly and promptly as to progress of transition
- Deal with impediments to progress

Inhibitors

Not all impediments are easily solvable and how much time and resources are devoted to them depends on the materiality of the impediment.

Deliverables

An action plan to deal with impediments has been developed.

3.6.11 Develop an orderly transfer process relating to staff, data and files

Outsourcing invariably involves transfer of staff, data and files. There are risk issues to consider and the process is enhanced by considering the following:

- Understand risk mitigation prime concern as highly risk stage of the transition involves transfer of staff, files and data
- Develop a transfer action plan for those affected staff, data and files taking into account:
 - Legislative and work place arrangements in place
 - Staff treated ethically and human resource issues dealt with properly

- Staff transferred are given adequate training in supplier systems
- Perform data integrity tests on data to ensure accuracy and reliability of data transferred
- Maintain proper records of all paper files either current or archived transferred

Inhibitors

The transfer of files and data may not have been transferred correctly on the supplier system and problems may not be seen until some time in the future..

Deliverables

As relevant staff, data and files have been transferred to the supplier's control in a proper manner compliant with legislation.

3.6.12 Define respective roles of senior management within supplier and organisation

Senior management roles pertaining to the organisation and supplier need to be established. On the one hand it is important to gain senior management support and assistance but conversely it is inefficient to have a process in place that requires senior management input on matters that do not really need senior management input and can be better handled by operational staff of the organisation and supplier. The transition phase will address the role of the organisation and supplier's senior management when the contract goes live. Accordingly, the role of senior management in the outsourcing process needs to be established during the transition phase by taking into consideration the following:

- Define clearly negotiation and deliberation role of respective senior managers
- Define senior management roles going forward – both senior management supplier and organisation
- Maintain relationship committees, steering meetings comprised of selected senior persons from organisations and supplier on a periodic basis
- Focus on senior management input on major issues not day to day operational matters

Inhibitors

Senior management within an organisation may be reluctant to let go of control and thereby interfere with many aspects of the outsourcing arrangement.

Deliverables

Respective roles of senior management at organisation and supplier have been defined as part of the transition phase to provide for an efficient and effective day to day working of the outsourcing arrangement.

3.6.13 Revise and signoff final or unresolved contract conditions, service standards, performance criteria as relevant

A clear understanding of the service standards and performance criteria is critical to the contract going live. Any differences of opinion as to the service delivery expectations can be addressed between supplier and organisation during the transition phase. This prevents arguments between supplier and organisation as to what is expected in delivering the service. Key matters to consider in agreeing to service standards are likely to entail the following:

- Gain insights from the transition in respect to contract conditions, service standards or performance criteria
- Assess if there are any problems with the contract service standards and performance criteria identified during the transition process
- Assess if a revision to the contract and especially service delivery or performance criteria within the contract is required
- Be fair but not too soft in watering down service delivery expectations
- Deal with contract and service delivery concerns before proceeding to contract going live

Inhibitors

Service delivery and performance standards may be impacted by factors not known during the transition phase.

Deliverables

Service and performance delivery standards/criteria have been agreed to by supplier and organisation.

3.6.14 Transition phase review according to outsourcing objectives, aims and scope and dealing with stakeholder agendas

The transition phase provides the last opportunity to tidy up any loose ends and review the arrangement one last time before going live. A focus on objectives and aims of the outsourcing arrangement will assist the transition team to focus on the key matters. Stakeholder agendas may impact on the transition phase being implemented properly. The focus of the transition is for an orderly preparation and implementation of the outsourcing contract. Accordingly the following tasks will be of assistance in achieving this focus:

- Focus on objectives , aims and scope of outsourcing during the transition process at all times, work within these factors and not other agendas
- Deal with offending stakeholders and personal agendas

- Obtain senior management assistance and commitment to ensuring transition phase maintains focus on outsourcing objectives, aims and scope

Inhibitors

The transition team has resource issues and deadlines to meet. Accordingly, it will be limited to the number of issues it can deal with. Senior management may not be able to resolve all stakeholder agendas or attitudes impacting on the transition phase outcome.

Deliverables

A signoff from the transition team all is ready to proceed for the outsourcing contract to go live.

3.6.15 Milestones – Phase 3

Phase 3 has prepared for the contract going live. The transition is a critical phase of the outsourcing process. Key tasks and milestones involved in phase 3 will comprise:

- Transition team and team leader in place
- Communication strategy – transition progress
- Establishment of an alliance and partnering relationship between organisation and supplier
- Agreement on service standards and performance criteria
- Policies and programs created (continuous improvement, joint problem solving)
- Reporting framework developed
- Audit sign off
- Confirmation of the transition team to progress to contract going live

Phase 4 is managing the outsourcing arrangement. If the transition phase has not been properly completed then phase 4 will be adversely affected.

3.7 Phase 4: Managing the Outsourcing Process

This is the fourth phase of the outsourcing process. The outsourcing contract has commenced and the focus in phase 4 is on managing the relationship between supplier and organisation. Suggested issues, tasks and activities to take into account during phase 4 are outlined in sections 3.7.1 to 3.7.10.

3.7.1 Manage stakeholder expectations in relation to outsourcing arrangement

Management of organisation stakeholder expectations in respect to the outsourcing arrangement is an important task throughout phase 4. Some staff and stakeholders will be frustrated with the new process or otherwise believe the performance of the outsourcing arrangement should have been different from what they perceive to be the

case. Dialogue with affected stakeholders is important. This involves a number of tasks that are aimed to educate stakeholders as to the basis of the outsourcing arrangement. The tasks and activities to consider in managing expectations are as follows:

- Manage perceptions and misconceptions from stakeholders to focus on real objectives, aims and scope of outsourcing arrangement
- Focus on performance criteria established within the contract
- Educate stakeholder on service delivery and performance criteria as outlined in the outsourcing arrangement
- Listen to the stakeholders
- Deal efficiently with stakeholder concerns
- Insist on open and transparent dialogue between supplier and organisation and within organisation
- Monitor and report supplier performance in an open and transparent manner

Inhibitors

Some staff or stakeholders may frustrate the outsourcing process for their own agendas. Senior management involvement may be required to deal with such persons.

Deliverables

The expectation of staff and stakeholders are properly managed during the contract term. Service delivery performance is monitored and reported on in a timely, transparent, ethical and consistent manner.

3.7.2 Create proper communication channels between organisation and supplier during contract management

The day to day working of the outsourcing arrangement requires a proper communication channel to be established between supplier and organisation stakeholders. Some suggested ways to do this in a proper and effective manner are outlined as follows:

- Encourage timely and open communication between supplier and organisation stakeholder
- Focus on developing formal communication channels to properly manage the outsourcing arrangement
- Allow stakeholder input and provide feedback
- Minimise communication channels to ensure effective working relationships and not create bureaucracy and red tape
- Limit communication and deliberation to the minimum number of persons from the supplier and organisation

Inhibitors

Informal communication channels are often formed within an organisation that may undermine the formal communication channels established between supplier and organisation. As discovered, senior management should deal and reinforce the agreed lines of communication.

Deliverables

A proper and formal communication channel has been established to create effective and efficient dialogue between supplier and organisation.

3.7.3 Address problems, conflicts and disagreements between organisation and supplier quickly

Conflict management is a key part of successfully outsourcing. Some suggested ways to deal with conflict management are outlined as follows:

- Small conflicts should not be allowed to escalate
- Do not sweat on the small stuff
- Do not let disputes grow or remain unresolved
- Limit the involvement of senior management to major disputes
- Encourage leadership in developing relationship managers representing suppliers or the organisation to resolve major disputes
- Focus on localised and informal dispute resolution as a first step
- Deal with personality conflicts quickly and ethically
- Allow supplier and organisation relationship managers to resolve disputes
- Utilise weekly meetings between supplier and organisation to resolve disputes

Inhibitors

Personality conflicts cannot always be avoided and often small problems are escalated to the attention of senior management.

Deliverables

Adopt an approach to deal with minor disputes quickly and fairly.

3.7.4 Establish and maintain a supplier monitoring performance regime

Monitoring supplier performance throughout the contract term is important. There is little point waiting to contract expiry before addressing performance issues. Ongoing performance monitoring is critical. The following points for consideration present ways to enhance ongoing supplier performance monitoring:

- Monitor regularly and efficiently the contracted performance standards
- Maintain an open book and transparent process of monitoring contract performance with honest communication and feedback to supplier

- Engage in objective performance monitoring based on evidence to substantiate claims
- Attributes of proper performance monitoring involve:
 - Ownership of performance monitoring obligation is with organisation not supplier
 - Start proper performance monitoring and review from the outset of the contract and ongoing for the term
 - Adopt a standardised performance review instrument and consistency in reporting to stakeholders
 - Provide early feedback to supplier and allow right of response from supplier
 - Revise performance monitoring instrument if circumstances dictate or prior performance measures require revision
 - Utilise performance monitoring as learning tool for internal and external stakeholders

Inhibitors

The performance service standards in the contract may be based on conditions and circumstances that no longer apply. This may require the initial service delivery standard to be reset to take into account new circumstances.

Deliverables

Proper and ongoing performance monitoring review and reports conducted in a fair and equitable manner. Reports should be circulated to supplier and organisation on a timely basis.

3.7.5 Partnering approach as the thrust of the working relationship

A working partnering and alliance approach needs to be developed by actions of the supplier and organisation during the contract term. The following provides some guidance on how a working partnering approach between organisation and supplier can be achieved during the contract term:

- Nurture a partnering and alliance mindset that is reflected in the day to day activities
- Avoid a 'we and us' versus 'you and them' mentality
- Partnering and alliance building is enhanced by engaging in activities that assist in building partnership and alliances. Some these activities include:
 - Social networking
 - Joint training
 - Environment providing innovation and creation by supplier
 - Reward innovation

- Discretion and initiative from supplier
- Reward initiative
- Sharing of knowledge
- Joint research
- Shared research

Inhibitors

If the legal contract and agreements are not framed to encourage partnering principles then the partnering initiatives may be compromised should one party wish to strictly rely on the terms in the contract. This encourages an in scope and out of scope contractual approach when supplier and organisation discuss and resolve the responsibility of day to day activities.

Deliverables

The outsourcing arrangement is run on genuine partnership and alliance principles.

3.7.6 Continually renegotiate contract terms with supplier in the light of new information

Outsourcing contracts are affected by changes in business circumstances, legislation and other factors. The outsourcing contract may have established principles no longer relevant or applicable due to changes in legislation. The supplier may feel aggrieved because of additional work required as a result of these changes. Similarly the organisation's business scope has changed and the outsourcing arrangement is limited. Accordingly, renegotiation of contract terms, processes and other key aspects of the outsourcing arrangement are important as an ongoing requirement. The following is suggested to assist with renegotiation and dealing with environmental change affecting an outsourcing contract:

- Taking into account that the outsourcing process is ongoing and forever a negotiation and renegotiation of ways of working between supplier and organisation
- Providing for flexibility not rigidity as the key - do not be hamstrung from past ways of working
- Acting on lessons from performance monitoring
- Adopting quantitative measures and qualitative measure as suitable for different measurement criteria
- Ensuring reward and penalty discussions open book and transparent
- Employing independent dispute resolution process for impasse

Inhibitors

Legal issues, audit requirements and business imperatives may limit the ability to continually renegotiate terms and ways of working with the supplier.

Deliverables

A live outsourcing arrangement in form and spirit that is continually reviewed, revised and renegotiated is the key to optimal outsourcing performance.

3.7.7 Act fairly on penalties and rewards in outsourcing contract

Performance measurement is a contentious part of any outsourcing arrangement.

Supplier and organisation may interpret the contract provisions differently in respect to performance standards, penalties and rewards. The optimal approach to ensure fairness and equitable treatment is to:

- Set performance hurdles fairly and clearly
- Utilise objective data to determine performance bonuses or penalties as applicable
- Qualitative measures are likely to be subject to dispute and open to different interpretation
- Mediate disputes on performance rewards and penalties in an open book and transparent manner
- Utilise independent dispute resolution if agreement between supplier and organisation on performance reward or penalty matters is not able to be established.

Inhibitors

The contract performance measurement hurdles may be difficult to measure accurately and accordingly there is continued dispute as to whether a reward under the contract is payable to the supplier.

Deliverables

Supplier and organisation have reached agreement on performance measurement criteria and have defined dispute resolution processes on resolving disagreements at any time on performance measurement and rewards.

3.7.8 Provide proper strategic direction to supplier

Strategic functions are typically maintained in house and not outsourced. However this does not mean that the supplier should be ignorant of the strategic direction of the organisation that impacts on the outsourcing contract. The organisation should provide proper strategic direction to the supplier to allow the supplier to properly undertake its duties under the outsourcing contract. The following tasks are recommended to achieve this:

- Hold strategic direction and setting as part of the organisation activity set
- Be open and honest about organisation's strategic direction when communicating this with supplier

- Take into account legal and confidential obligations but understand sharing builds trust and confidence between supplier and organisation
- Disclose strategic direction of organisation to supplier in a clear manner that allows operational decisions to be properly made by the supplier in the light of these strategic decisions
- Allow for supplier feedback and commentary to strategic decisions made

Inhibitors

Some strategic information is confidential or sensitive and an organisation may be unable to release it to the supplier. The supplier's performance may be adversely affected.

Deliverables

Strategic direction of the organisation has been advised to the supplier to enable the supplier to make better day to day decisions in delivering the outsourced services to the organisation.

3.7.9 Audit continually assets, data and files held by supplier on the organisations behalf including supplier integrity

The continuing audit of assets, data and files is designed to minimise risk and loss to the organisation. Processes, tasks and actions to monitor assets, data and files consist of the following tasks and considerations:

- Continual process of organisation to monitor and audit assets, data and files transferred to supplier
- Continual audit process assists with any need to transfer back assets, data and files at expiry of contract or earlier if required
- Act quickly on any matters discovered in audit to ensure protection of assets, verification and integrity of data and files

Inhibitors

It may be physically difficult because of location to audit all assets, file and data. Therefore from a cost benefit approach, it may only be possible to audit material items.

Deliverables

Audited list of assets, files and data is maintained by the organisation.

3.7.10 Implement suitable contingency strategies where poor performance exists

For a number of reasons, outsourcing contracts may fail to achieve the expected performance set and agreed between supplier and organisation. Attempts to rectify the situation may not achieve a positive outcome. The organisation will be required to take action. Some considerations where action needs to be taken are outlined as follows:

- Develop a contingency plan as soon as poor performance is ongoing or appears entrenched without resolution
- Assess options and perform/implement contingency strategies deemed appropriate that will:
 - transfer back to organisation previously outsourced activities
 - consider all risks including to reputation/business continuity/service delivery
 - refer to contract and act in strict accordance with contract
 - research the industry for options and other suppliers who could assist in the interim
 - consider the urgency of the matter – do not stall on action
- Decide on the course of action to take

Inhibitors

The contract may not have sufficient scope for the organisation to act or there are practical impediments to adopting alternative strategies. There are risks of any strategy that requires assets, staff and files back inhouse.

Deliverables

A contingency strategy has been developed that has considered cost/benefits and risk issues of any strategy to deal with poor outsourcing performance.

3.7.11 Milestones – Phase 4

Phase 4 is concerned with the management of outsourcing contract until expiry. Key tasks and milestones comprise:

- Policies and procedures established for managing the contract
- Expectations of stakeholders and senior management managed
- Dispute resolution process in place
- Performance monitoring
- Continual renegotiation and evaluation of contract terms
- Contingency plan for poor performance

The contract has a limited lifespan at which time the contract expires and either renewed, renegotiated or terminated. Phase 5 is concerned with dealing with matters at contract expiry.

3.8 Phase 5: Contract Expiry

This is the fifth and last phase of the outsourcing cycle. Outsourcing contracts have defined terms. At the end of the term, the contract may be renewed, varied or another supplier appointed. In some cases, the organisation may decide to transfer the

outsourced operations back in house. There are a number of tasks, activities and considerations required during the contract expiry phase. These are outlined in sections 3.8.1 to 3.8.13.

3.8.1 Review outsourcing and other options including transfer back inhouse around 12 months from expiry of outsourcing contract

The organisation should have sufficient time to consider its options prior to the formal expiry date. Leaving an assessment of options to the contract expiry date will not give the organisation time to consider all options at contract expiry date. Accordingly, there needs to be a defined process ahead of contract expiry for an organisation to consider its options. This process is suggested to consist of the following tasks and considerations:

- Provide for ample time (12 month prior to expiry is suggested) to consider options on expiry - do not be left with no option but to renew because of leaving evaluation of options to the last moment
- Act in accordance with contract conditions in respect to contract expiry and deal with options allowed or expected to be followed in contract
- Conduct analysis and review of outsourcing as per Phase 1 - business case, base line, SWOT etc
- Appoint a contract review team – multi disciplinary to review results of the outsourcing experience and form a view on the options to pursue

Inhibitors

The options available to the organisation may be less than when the contract was first entered into. For example there may be fewer suppliers offering the required outsourcing services. The cost to transfer the operations back inhouse may be prohibitive or impractical.

Deliverables

The appointment of a review team to independently review the performance of the contract and options should be in place and working well ahead of contract expiry.

3.8.2 Review once again the objectives, aims and drivers of outsourcing in the light of the outsourcing contract performance

Part of the review team's role is to review the aims, objectives and drivers of the outsourcing decision. In some respects, this is similar to phase 1 review with the exception that the performance of the contract can now be factored in any review of options. Key requirements and tasks for the team to perform a review of objectives, aims and drivers of the decision to outsource will entail:

- Revisit the drivers and objectives of outsourcing now compared to at inception of arrangement
- Form an opinion as to whether the original drivers and objectives of outsourcing are still valid
- Assess business and industry changes and effect on outsourcing going forward
- Align business goals with the aims and objectives of the outsourcing arrangement
- Allow stakeholder input as per phase 1 to the review of objectives and drivers of outsourcing

Inhibitors

The time constraints as a result of the impending contract expiry may restrict the review team engaging all stakeholders.

Deliverables

Utilising the lessons learnt from the outsourcing arrangement, the review team will derive updated outsourcing objectives, aims and drivers in consultation with the stakeholders and senior management.

3.8.3 Review alternatives to outsourcing, current best practice and alternative suppliers now available in the market place

Since the contract was entered into, there is likely to have been new best practices introduced relevant to the outsourcing arrangement and new suppliers who have entered the market. This needs to be researched during the contract expiry phase. Some ways to do this are outlined below:

- Research and consider all options
- Identify what is industry best practice for outsourcing
- Follow industry trends
- Research who has entered the market since inception of contract
- Identify other options now available

Inhibitors

The information on best practices and new suppliers able to be obtained may be incomplete if not available in the public domain or otherwise restricted for reasons of confidentiality.

Deliverables

Knowledge of what the market can offer including details of any new suppliers who have entered the market for outsourcing services of the type desired by the organisation.

3.8.4 Review base line costs on a total, cost basis based on outsourcing experience

As with phase 1, base line costs should be set on the basis of a total cost approach. Therefore the base line costs should be set as follows for the purpose of reviewing base line costs at contract expiry:

- Adopt a total cost approach to deriving a base line revised taking into account the outsourcing experience
- Review the outsourcing base line cost using information gained from the outsourcing arrangement over term of the contract
- Review and rerun base line analysis with parameters considered more feasible in the light of experience of the outsourcing arrangement
- Prepare and compare different baseline costs for the different options available to the organisation

Inhibitors

Base line costs are relevant at a point in time and deciding which costs comprise the baseline for cost comparison is not straight forward.

Deliverables

An updated base line cost is derived on a total cost approach and the updated base line cost has taken into account the experience of the outsourcing arrangement.

3.8.5 Risk and return analysis the key to which decision to make

Decisions as to which option to entertain at contract expiry should be made based on the results of a risk and return analysis of the various options. This would entail the following:

- Complete Discounted Cash Flow analysis, evaluation matrix, marginal cost analysis similar to phase 1 for different options
- Have the review team assess risk and return profile for each option
- Come to a conclusion as to preferred option from a risk and return viewpoint utilising analysis conducted

Inhibitors

The basis of analysis undertaken will have its own limitations that may impact on accuracy. Apart from considering continuation of the current outsourcing operations, other options such as transfer back inhouse may be difficult to quantify in terms of risk and reward.

Deliverables

A risk/return assessment has been made for each option derived by using appropriate evaluation techniques.

3.8.6 Obtain senior manager buy into decision recommended by review team

The review team will form an opinion as to which option to take up. However, the review team will need the support of senior management for any recommendation made. The steps to gain senior management approval are:

- Procure senior manager buy in to decision recommended by review team
- Obtain resources and instil cooperation from all stakeholders

Inhibitors

Senior management may be swayed by other factors unable to be controlled by the review team.

Deliverables

Senior management support has been obtained to the decision of the review team. In addition the review team will seek an allocation of resources to implement the strategy.

3.8.7 Manage the negotiation or renegotiation process allowing for competitive tension between the suppliers tendering

The incumbent supplier will have advantages in any tender. This may discourage other suppliers from tendering or otherwise participating in the process. However it is critical to maintain competitive tension in any tender at contract expiry. This is achieved by the following tasks and considerations:

- Adopt the phase 2 principles of successful tendering and negotiation
- Maintain competitive tension between suppliers,
- Ensure current supplier does not see a contract extension or favourable result as a formality
- Competitive tension encouraged as a result of:
 - dealing and involving as many suppliers as possible
 - maintaining an open book transparent tender approach to encourage active participation by supplier
 - keeping to an outlined timetable
 - clarifying evaluation criteria
 - providing timely advice of tender fate or shortlist
 - giving the tender parties a clear perception that the tender is real by conduct and process of tender undertaken

Inhibitors

The number of suppliers may have decreased since the contract commenced or the number of prospective suppliers willing to participate in the process has decreased.

Deliverables

A tender process has been established encouraging competitive tension.

3.8.8 Announce the decision but continuity of business is imperative

It is important that the organisation needs to continue trading despite the awarding of the tender. If the winning supplier is not the incumbent then there is concern to ensure that there is a suitable transition process and the business continues unaffected. The following may assist this to happen:

- Consider business continuity when alternative supplier chosen
- Prepare a business continuity plan
- Monitor the implementation of the business continuity plan
- Work with stakeholders most affected by change in suppliers

Inhibitors

The exiting supplier may have lost interest and even despite the contractual obligations create difficulties or adversely affect business continuity.

Deliverables

A continuity of business strategy plan is prepared and implemented.

3.8.9 Manage file, data, asset and system transfers as part of an organised transition process

Changing suppliers requires transfer of files, data, assets and systems. This suggests a transfer risk that needs to be dealt with. Minimising transfer risk to a new supplier is achieved as follows:

- Create a file, asset and system transfer transition program
- Audit input and verification of files and data transferred
- Monitor carefully the transfer of asset and system transfers
- Understand the risk to the business from improper transfers of files, data and system transfers

Inhibitors

The asset register compiled in phase 4 will be critical to the identification of assets, files and systems.

Deliverables

An asset, file and system transfer management plan has been derived.

3.8.10 Communication strategy implemented – publicity management a key requirement at contract expiry

To maintain accurate information and reduce the possibility of misinformation about the contract expiry process and options available the following should be considered to manage publicity:

- Take into account the broader communication needs to stakeholders and external suppliers
- Focus on positive benefits and meeting of organisational objectives in respect to the decision made regarding outsourcing
- Address misconceptions of outsourcing arrangement with stakeholders and affected third parties
- Manage media speculation about outsourcing arrangement
- Adopt the communication principles espoused in phase 2 in respect to communication with stakeholders and affected third parties

Inhibitors

Media focus will largely be on the expected cost of the outsourcing arrangement. This may create false expectations among the tender parties.

Deliverables

A defined and workable communication strategy is in place that addresses media speculation.

3.8.11 A repetition of the transition phase but with a slightly different focus if a new supplier is chosen

The requirements of phase 3 in terms of transition to a new supplier are relevant. It is important that the transition process is conducted in an effective manner. There is now an additional issue of business continuation if a new supplier is selected to replace the incumbent supplier. The focus on business continuity is maintained as follows:

- Focus on business continuity as the key to smooth transition
- Adopt transition program guidelines as per phase 3
- Address quickly, fairly and ethically issues with exiting supplier to maintain business continuity

Inhibitors

The reaction of the incumbent supplier is important notwithstanding the obligations under contract to cooperate with the transition. Working with the incumbent knowing that its contract will not be renewed is not an easy process and can create risk issues.

Deliverables

A defined and workable transition strategy is implemented taking into account business continuity.

3.8.12 Consider third parties in the transition to new supplier

The transition to a new supplier needs to consider stakeholders and third parties relevant to the outsourcing arrangement to ensure a smooth transition. The following guidelines address this:

- Consider secondary and third party contractual relationships when new supplier appointed
- Keep affected parties informed
- Work with new supplier in management of these relationships
- Ensure business continuity is maintained at all times

Inhibitors

Third parties may be tied to the incumbent supplier and need to be dealt with.

Deliverables

A strategy devised to deal with third parties that are either tied to the incumbent supplier or otherwise independent but perform key services nevertheless.

3.8.13 The possibility for a new beginning – staying with the incumbent supplier

The decision to remain with the incumbent should be viewed as an opportunity to improve on the past arrangement. Some of the suggested ways to achieve this are:

- See the new relationship as a new beginning
- Look at ways jointly to improve the process
- Consider changing environment
- Reassess staff and management personnel
- Refocus partnership principles
- Review performance and service standards in the light of past history and what is achievable

Inhibitors

The supplier and organisation will look to improve on their positions and accordingly the contract variation will need to address areas of inequity.

Deliverables

A positive and constructive basis to proceed going forward with the incumbent supplier has been derived.

3.8.14 Milestones – Phase 5

Phase 5 is the final phase of the outsourcing framework. Its tasks and milestones comprise:

- Review contract expiry process well ahead of expiry
- Evaluation of options upon expiry using suitable techniques
- Research market for new best practices or new suppliers which have entered the market
- Base line cost revision

- Senior management buy in to decision
- Transition process considering business continuity as a priority
- Communicate and implement transition strategy
- Reappraise arrangement with incumbent supplier if incumbent successful in renewing contract

3.9 Chapter review and conclusion

This chapter outlined the framework for successful outsourcing. The framework is presented as a five phase process. For each phase a detailed explanation of the phase and its key tasks, actions, inhibitors and deliverables have been outlined. This framework is the subject of the research. The next chapter explains the research methodology adopted as part of the research.

Chapter 4 : Research Methodology

4.1 Introduction

Chapter 4 provides a discussion on the research methodology adopted for this research in meeting the research objectives and aims. A theoretical outsourcing success factors framework was developed in chapter 3. Five case studies and one focus group session was conducted in the testing of this framework and assessment of its utility to practitioners involved in the outsourcing of Australian corporate real estate functions.. This chapter provides also a discussion on appropriate research design and strategies to meet the stated research objectives and aims. Data collection and analysis strategies are also discussed. Lastly, there is a discussion on ethical considerations pertaining to the research.

4.2 Theoretical basis for research

The research is concerned with producing a framework for the successful outsourcing of Australian corporate real estate. An appropriate research paradigm needs to be selected that is suitable for meeting the aims and objectives of the research. In section 1.5, the research questions pertaining to the research were outlined. The five phase success factors outsourcing model was derived from a comprehensive review of the academic outsourcing literature. In addition, the five phase success factors framework developed within the study required a detailed understanding of outsourcing and outsourcing success. An interpretive research approach was deemed to be the most appropriate approach to meet the research aims, objectives and address the research questions pertaining to the study. Bryman (2001) deems interpretive research approach to be concerned with seeking to develop an understanding of the subject under study. He considered that this understanding was developed through detailed description of the subject under study. For this research, an interpretive or qualitative research approach is critical to understanding of a framework for Australian corporate real estate outsourcing. Development of a framework requires a close examination of the data under study. This approach is consistent with a qualitative or interpretative approach. Babbie (2001) considered the basis of interpretative research is for the researcher to be:

- Immersing oneself in the phenomenon to be studied and;
- Gathering data which provide a detailed description of events and;
- Examining situations and interaction between people and things.

The outcome of this research approach according to Babbie is that the researcher has obtained depth and detail of the subject being studied.

Sekaran (1992) has a consistent view to Babbie. Sekaran (1992) defines qualitative research as interpretative research as a research approach that seeks to develop an understanding of the subject matter through detailed description. A theory or theoretical model is derived or evaluated through this research approach according to Sekaran. In respect to the subject study, it was important that a detailed understanding of the dynamics of corporate real estate outsourcing arrangements was developed to evaluate the validity of the theoretical framework developed from the literature.

Quantitative research approaches were not considered appropriate in meeting the research aims and objectives. A detailed review of qualitative and quantitative research approaches and their suitability for meeting research aims and objectives were considered. The analysis indicated that quantitative research approaches and design strategies would not provide sufficient understanding of corporate real estate outsourcing contracts. If a sufficient understanding could not be obtained then there was a risk that the development of an outsourcing theoretical framework could not be derived in an effective and proper manner.

4.3 Research Aims and Objectives

The general aim of this research is to develop a success factors framework for outsourcing corporate real estate services and then test the framework against actual real estate outsourcing arrangements. An additional research objective was to assess the utility of the framework to practitioners of the outsourcing of Australian corporate real estate. The framework would be modified where required to take into account the detailed findings and analysis of the five outsourcing arrangements and discussions with industry participants involved in corporate real estate outsourcing. As a final output, the research will produce a working framework to assist industry practitioners involved in the outsourcing of corporate real estate functions.

The specific aims of the research are to:

Identify the critical success factors pertaining to the outsourcing of corporate real estate functions. This is achieved by:

1. Defining outsourcing success and a suitable approach to achieve outsourcing success

2. Identifying the relevant phases and processes involved in the successful outsourcing of corporate real estate functions.
3. Developing a working framework relevant to the successful outsourcing of corporate real estate functions.
4. Testing the usefulness of the working framework in actual organisational environments participating in real estate outsourcing.
5. Modifying the framework if required based on the findings derived from testing of the framework in actual organisational environments participating in real estate outsourcing.
6. Producing a final working framework that is relevant and useful in the outsourcing of corporate real estate activities.
7. Obtaining industry practitioner feedback as to the usefulness of the outsourcing framework developed.

4.4 Research Approach

To meet the research aims outlined in section 4.3, the research was conducted in three distinct stages. Whilst these stages are to be completed in the sequence outlined below, the research is also iterative in that at the framework is tested and altered as required based on the investigations conducted at each stage of the research process. The three distinct stages of the research approach are:

- Stage 1: Derivation of the initial framework from the literature and tailored for corporate real estate outsourcing. The framework's development from the outsourcing literature and structure was outlined in chapters 2 and 3.
- Stage 2: Testing of the framework and modification if necessary utilising five case studies and a focus group session.
- Stage 3: Finalisation of the theoretical framework and presentation of results and findings.

4.5 Selection of Research Method and Strategy

The appropriate research strategy is that strategy which assists in meeting the research objectives and aims. A research strategy sets out the general plan as to how the research questions will be answered (Saunders et al. 2003). In the case of this research, the central research question or issue is whether the theoretical outsourcing framework is consistent with success factors present in real estate outsourcing arrangements. In addition, the other research issue ancillary to the central research question is whether the theoretical research framework developed has industry acceptance or otherwise considered of use to the outsourcing

practitioners involved in corporate real estate outsourcing. The research plan developed deals with answering the research questions, specific research aims and objectives. Section 4.1 outlined that the appropriate research strategy and approach was an interpretative or qualitative research approach. Reasons were provided why a qualitative research strategy was deemed appropriate to meet stated research objectives and aims. This interpretative or qualitative research paradigm according to Lee (1991) has many research techniques. Case studies and focus groups are considered to be part of an interpretative or qualitative research methodology and appropriate for meeting the study's research aims and objectives.

Case study research has defined techniques and approaches in the manner data is collected and analysed. Pare and Elam (1997) discussed the benefit of case studies of being able to achieve a broad number of research aims especially in being able to position the research in its broadest and fullest context. This allows an in depth analysis of the case. Case study research takes place in its natural setting. A case study can examine complexity and the total context of the subject under examination. Punch (1998) elaborated on this when he said that case study analysis is concerned with a total or holistic approach that aims to maintain completeness and unity of the case. The nature of the research required that a complete real estate outsourcing arrangement as well as its component parts were carefully analysed.

The research utilised case studies to determine whether the theoretical outsourcing framework developed was consistent with the actual success factors experienced in the case. Therefore, consideration of the background of the case study organization, the overall context of the outsourcing arrangement and the situational and environmental factors pertaining to the outsourcing arrangement were important factors to consider. The case study approach produced the in depth analysis to consider these matters. In addition, the case study approach is also justified for the following reasons:

Walsham (1993) confirmed case studies to be main vehicle for interpretative or qualitative research. Section 4.1 identified interpretative and qualitative research as the appropriate research paradigm. The study of corporate real estate arrangements requires an indepth examination of success factors in a total context. The theoretical framework created in the research is compared to themes or patterns that occurred in the case study outsourcing arrangement. The case study approach allows these themes and patterns to be identified.

Selection of an appropriate case study methodology is conditional to the research questions being asked as part of the study (Emory and Cooper 1991). The research is concerned with how and why questions. For example, the research will need to

examine how and why was the outsourcing arrangement successful? Another question would focus on why the theoretical framework has relevance to industry practitioners engaged in corporate real estate outsourcing. Yin (2003) was of the opinion that case study strategy was appropriate in dealing with research questions of a how and why nature.

The research focuses on contemporary events. According to Yin (2003), the case study is an empirical study that investigates contemporary matters within a real life context. The research is concerned with Australian corporate real estate outsourcing and what factors aid its success. More importantly, the theoretical framework developed is tested against actual outsourcing arrangements that are current and in place at the time of the research. Case study research provides flexible and innovative strategies according to Yin to analyse contemporary matters in a real life context.

The research analyses actual outsourcing arrangements over which the researcher has no control. Yin (2003) considered case study research strategies as appropriate where the researcher is investigating events of which the researcher has no control.

Case study research is useful for exploratory research. The research is investigating the complex phenomenon known as corporate real estate outsourcing. In chapter 2, it was identified that the academic literature for Australian corporate real estate outsourcing is virtually non existent. Darke et al. (1998) suggested that case study research is useful where the body of knowledge is not well developed or otherwise evolving. Benbasat et al. (1987) considered that case study research would be of use where the subject matter was broad and complex. The dynamics of an Australian real estate outsourcing arrangement are such that the arrangement is complex and success dependent on many variables.

Case study research is useful where resources are limited. Yin (2003) was of the opinion that case study research had advantages in being able to be completed over a defined time frame and at less cost than ethnographic research techniques that require ongoing observation over a long period of time of the research subject matter. Case study research was deemed in cost and benefit terms to be suitable for the subject study in meeting its research aims and objectives

The research was also concerned with ascertaining whether the framework was of use to real estate outsourcing practitioners. A focus group was used to meet this research objective. Cooper (1996) stated that focus groups are useful for exploratory research purposes. Their use may add to other research methodologies such as case study research. Some reasons according to Cooper (1996) why focus groups are valuable are:

- Allows general background to be obtained about a topic or issue
- Generates research questions
- Interprets previously obtained research results
- Allows peer review and opinion on a particular subject matter

The purpose of the focus group session in the study was to assess the utility of the theoretical framework for Australian corporate real estate outsourcing derived from the study.

4.6 Research Strategy for Case Studies and Focus Group

The literature has identified a number of different types of case studies. Stake (2000) distinguished three different types of case studies. He identified intrinsic, instrumental and collective. An intrinsic case study is used where the uniqueness of the case is of importance rather than its value for building or evaluating a theory or framework. Instrumental case study approach is appropriate when the case study is required to gain insights into a matter or otherwise develop or evaluate a workable theory. A collective case study extends the instrumental case study. In a collective case study, the research investigates a number of cases so that the researcher can learn more about the matter under investigation and the general conditions and population relevant to each case. Based on Stake (2000)'s categorization, the case studies used in this research were identified as instrumental case studies. This was because the cases selected were of interest in only explaining an understanding of the success factors pertaining to Australian corporate real estate outsourcing.

Case studies can be interpretive or positivist. Positivist case studies are concerned with testing hypotheses. Merriam (1998) distinguished the positivist with the interpretive case study approaches. He stated that in an interpretive case study, the research is concerned with analysing, interpreting and theorising about the subject matter against a theoretical model or framework. Further, while qualitative research is inductive, interpretive case studies also mould existing theory by the process of analysis and interpretation inherent in interpretive case study practice. Therefore, the underlying theory being investigated may be varied as a result of the interpretative case study research. Interpretive case study findings are often discussed in their role of increasing the body of knowledge.

The research does not test hypotheses. Firstly, there is little literature on Australian corporate real estate outsourcing that can lend itself to deriving suitable hypotheses to test. The theoretical framework developed from this study is what is relevant. This research is therefore concerned about the theoretical outsourcing framework

developed as part of the research and its relevance to Australian corporate real estate outsourcing as a validated framework that at the same time has utility for practitioners of Australian corporate real estate outsourcing. Accordingly, interpretative case studies are considered an appropriate research strategy for the study.

The focus group did not test the theoretical framework. This was the role of the five case studies. The role of the focus group session was to obtain industry practitioner viewpoint of the utility of the outsourcing success framework developed in the research.

4.7 Design of Case Study Research and Focus Group Session

Once the decision has been made to utilize an interpretative case study strategy, the next consideration is to derive an appropriate case study design strategy. Case design strategy involves the:

- Consideration of whether to use single or multiple cases
- If the decision is to use multiple cases, then how many cases?
- Consideration of case study configuration and selection

The research adopted a multiple case design. Five case studies were used to meet the research aims and objectives. In deriving a suitable multiple case design, the following matters were considered:

- Designing multiple cases
- How many cases were to be selected?
- What was the unit of analysis?
- How was the case to be selected?

4.7.1 Designing multi case study research

While a single case can be useful in providing detail and description of a research subject matter and contribute to knowledge, there are limitations with this approach. Single case designs may be deficient in not being able to detect idiosyncrasies of the research setting (Cavaye 1996). Cultural and industry nuances and differences may not be detected by adopting a single case strategy. Accordingly the validity or otherwise of the theoretical outsourcing framework developed may not be properly established by the use of a single case study strategy as the findings of the research may be dictated by the idiosyncrasies and nuances of the single case study.

Yin (2003) identified the advantages of multiple case study design as:

- Multiple case design enables cross case comparison
- Verification of findings derived from different case
- Overcomes reliance on single case study results that may be impacted by idiosyncrasies of the single case study
- More robust testing of theory

The research has adopted for the reasons outlined in Yin (2003) a multiple case study design.

4.7.2 Number of cases

The literature does not specify an ideal number of cases appropriate for case study research. Perry and Coote (1994) suggested that a possible range may be two to four cases as a minimum and perhaps ten, twelve or fifteen as a maximum. The number of cases depends therefore on the study in question. Similarly, random selection of cases as would be applicable in a statistical sampling design is not necessary or desirable (Eisenhardt 1989). According to Patton (1990), the number of cases is subject to:

- What the underlying research is about?
- How the findings will be used?
- What resources (time and other resources) are required to satisfactorily complete the research?

Five cases were deemed satisfactory for the study. Apart from consideration of time, cost and other resources, five cases were chosen because:

- Each case had a major outsourcing arrangement that was current
- Each case had an outsourcing arrangement that had completed at least one contract life cycle from start to expiry of contract term
- Each case was from a different industry and sector to the other cases, thereby ensuring there was consideration of industry or sector differences
- Each case had one key vendor managing or otherwise responsible for the outsourcing contract. This ensured comparability between cases.

4.7.3 Unit of analysis

All cases involved examination of the legal outsourcing contract and the underlying arrangement as the unit of analysis. Accordingly, this made it easy to examine the arrangement in an objective manner across cases. Similarly, each case had one major contract between the organization and the main vendor notwithstanding that

there were subsidiary or ancillary arrangements between the head vendor and subsidiary vendors to deliver the outsourcing services to the organization. Therefore each case could be clearly identified in terms of its main outsourcing contract and underlying arrangement.

4.7.4 Selection of case study organizations

Five organizations were selected for the purposes of the research. Detailed descriptions of the organizations and real estate outsourcing arrangements will be detailed in chapter 5. The five cases comprised:

- Case A : Major Australian Financial Services Company
- Case B : Major Australian Electrical Goods Retailer
- Case C : Major Australian Telecommunications Company
- Case D : Major Outer Metropolitan Melbourne Council
- Case E : Major Australian Petroleum and Convenience Store Retailer

The literature provides some guidance for selection of cases. In particular, the literature considers:

- Selection of cases to provide 'information rich' cases that are considered to be valuable, important, interesting and high quality (Eisenhardt 1989)
- Cases that provide significant breadth and scope for the research (Brief and Dukerich 1991)
- Ability to access interviewees and information resources (Patton 1990)

The cases are considered representative of organizations engaged in major Australian outsourcing real estate contracts. Cases A and C represent two of Australia's larger public companies that have outsourced their corporate real estate functions to external vendors. Case D was the only case where the organization did not have property assets located throughout Australia. Case D had property assets only in Melbourne, Australia. All cases had major Australian real estate corporate contracts of at least \$2million in value and of property and real estate holdings of at least \$200million in value in keeping with the scope of research outlined in chapter 1. All cases have provided access to interviewees and information as required. As outlined in section 4.9, ethical considerations required that cases, interviewees and vendors not be identified by name or in a manner that can identify the organization, interviewee or vendor. Accordingly, cases are given a pseudonym such as case A, vendor A or interviewee A. Similarly, archival, source and confidential documentation are referred to in generic terms to not identify the parties to the documentation.

The five cases identified are deemed to provide interesting and valuable insight into corporate real estate outsourcing. The information obtained from these cases is deemed to be of sufficient standing and relevance to enable the research aims and objectives to be met.

4.7.5 Selection of focus group participants

The focus group participants comprised six corporate real estate outsourcing practitioners. Selection of the focus group participants was on the basis of 'opportunistic' selection given the constraints of time, resources and limited number of suitable candidates with the prerequisite knowledge and experience in corporate real estate outsourcing. The focus group participants were selected based on their industry experience and expertise in the field of corporate real estate outsourcing. All focus group participants have been involved in corporate real estate outsourcing over the last five years. None of the focus group participants were involved with any of the five case study organisations.

4.8 Data Collection and Analysis Techniques

The literature has provided some guidelines as to how data is to be collected in terms of case study research. In particular the works of Yin (2003), Klein and Myers (1999) and Eisenhardt (1989) were considered as to how to collect data when case study research was involved. The discussion in this section on data collection and analysis techniques is based on their work.

4.8.1 Sources of Data

The data was collected from interviews, source documents and archival documentation. A detailed review and analysis was conducted on archival documentation of various sorts. Archival documentation consisted but was not limited to:

- Source documents (contracts, terms letters, tender documentation, files)
- Contractual documentation – main and ancillary contracts
- User manuals – organization
- Selected organizational files
- Vendor operating manuals
- Historical performance data
- Legislative and other regulatory documentation applicable to the outsourcing arrangement
- Annual reports

- Web site information

Interviews

All interviews took place at the office of the organisation or at the office of the vendor as relevant. Section 1.7 defines the key roles in the outsourcing arrangement and section 3.2 defines the theoretical foundation of an outsourcing arrangement as being based on principal-agent multi task theory. Accordingly the research gathered case study data via interviews from organisation (principal) and vendor (agent) representatives. An interview guide was prepared for the interview process. The interview guide was prepared in a manner that gave flexibility to the interviewer so that different interviewees were not required to answer the same questions or provide the same information if this was not relevant to the research data collection. This is consistent with the guidelines outlined in Sekaran (1992) for construction of interview guides for qualitative research approaches such as case study research. Sekaran emphasised the requirement for interview guides in a qualitative research setting to be structured to be able to collect required factual data but also flexible enough to collect detailed case data to assist in meeting the aims and objectives of the research. The interview guide's open question order mirrored the framework's order of phases and sub phases. The interview guide is presented in Appendix 1. At the time of each initial interview a letter of introduction was provided to the interviewee. A copy of this letter of introduction is included in appendix 2. This letter of introduction introduced the research aims and objectives to the interviewee. In addition, the letter of introduction confirmed that the interviewee's personal details and organisational documentation would not be identified or disclosed to any other party as part of the interview process. This encouraged the interviewee to be more open and transparent.

The interview guide questions were semi structured. The first section of the interview guide was concerned with background questions and obtaining demographic and descriptive data. The second section of the interview guide was concerned with structural questions and followed the theoretical framework order of items developed as part of the research. Therefore, each phase of the outsourcing process was considered in detail in the order espoused in the theoretical outsourcing framework that was the subject of the research. The third section of the interview guide was deliberately framed as a free format section where the interviewee was able to enunciate further points, issues or insights that did not fit into an earlier part of the interview process.

Structuring the interview process to avoid interviewer data bias

The interview process took the following approach so as to avoid interviewer data bias and ensure interviewee freedom to talk freely and in an open and transparent manner:

- Interviews were conducted at the offices of the case study organisations
- Confidentiality and anonymity were promised as part of the interview process.
- Each interview was structured to allow open dialogue and encourage free format dialogue especially in the latter section of the interview process
- As some interviewees refused to have the interview taped, a decision was made not to tape any interviews. To ensure integrity of interview response recording in the absence of tape recording, at the conclusion of each section of the interview, a detailed summary was read back to the interviewee for confirmation as to what was said. Where there were recording discrepancies these were corrected on the interview transcripts.
- Where the interviewee referred to an archival record or source documentation, the interviewee was requested where possible to provide a copy of that archival record or source documentation. Discussions were held with the interviewee to resolve any misunderstanding if the archival record or source documentation cited by the interviewee was at odds with the account given by the interviewee during the interview.

Selection of interviewees

Particular categories of interviewees were considered. Mason (2002) considered selecting various categories of interviewees would help generate data that would assist in meeting research aims and objectives. Similarly Neumann (1994) was of the opinion that contrasting types of interviewees would provide useful perspectives as long as the contrasting types of interviewees consisted of leaders in charge, subordinates and other categories of persons in the centre of events. The study aimed to have different categories of interviewees taking part in the interview process. The key categories from which the interviewees were selected were chosen from the following categories:

- Organisation senior management
- Organisation project team leader
- Organisation relationship manager
- Outsourcing consultants (where applicable)
- Organisation relationship team member
- Organisation staff

- Transitioned staff member
- Supplier senior management
- Supplier project leader
- Supplier relationship manager
- Supplier team member

It is possible in some instances that an interviewee was able to fit more than one category. For example, the outsourcing team project team leader was in two case study organisations the same person who acted in the role of the organization relationship manager. However this was the only exception and for the categories identified above a suitable interviewee was identified to take part in the research interviews. The interviewee titles are not necessarily representative of the interviewee's actual job title. Therefore the category is a generic description of the role in the outsourcing arrangement that is consistent throughout the five case study organizations and real estate outsourcing arrangements. Twenty one persons pertaining to the five case study organisations were interviewed as part of the research. Appendix 3 details all the case study interviewees' background and other pertinent information. Interviewees are referred to by a pseudonym and not by their name. This approach is further detailed in chapters 5 and 6.

The main data in the case studies was collected from the organization interviewees. This was important as the research aim was to evaluate the theoretical outsourcing framework developed as part of the research against actual outsourcing real estate contracts. Data collected from the suppliers was important to provide an alternative view and further insight as to why the outsourcing arrangement was successful or otherwise. Chapter 5 summarises the data collected from both organization and supplier for each case. The data collected was sourced from face to face interviews and archival documents principally source documentation pertaining to the outsourcing of real estate for each case study.

Archival and source documents

Yin (2003) considered that archival and source documents had the following strengths:

- Independent sources of information , that is not created as a result of the interview data collected
- Exact and detailed accounts of what occurred
- Able to be reviewed as and when required in a consistent manner
- Often a source of broad information.

Conversely, Yin cautions that archival documents are restricted for reasons of privacy and confidentiality. The information may be incomplete and author bias is still a factor to consider even with archival documents. Details of archival documents and source documents collected and/or examined in this research are provided in Appendix 4.

The main source of evidence was taken from the interviews. However archival documentation and source documents were a complementary source of evidence that had the benefit of confirming interview data, understanding broader contexts and dealing with inconsistencies in the interview data or otherwise providing clarification to the interview data obtained.

Focus Group Session

Focus groups can be difficult to manage and ensure that they operate in a manner that meets their objectives and provides value to the research process. Morgan (1997) has provided some guidance on successfully managing focus groups. He advises that the following steps are necessary:

- Decide on the purpose of the focus group
- Develop the focus group materials to meet that purpose
- Determine the types of participants
- Determine the number of participants
- Determine focus group content
- Determine the venue, time of focus group session
- Determine the basis of recording the focus group session

The focus group's objective was to assess the utility of the theoretical outsourcing framework presented in chapter 3. The focus group participants were industry practitioners in the Australian corporate real estate sector. A list of the focus group participants is provided in Appendix 5. Their names are not disclosed and participants are referred to as participant 1, 2 and so on. None of the participants in the focus group were involved in the case studies or in any way associated with any organization relevant to the case studies. One two hour session was held in Melbourne CBD on the 12th October 2010. The six participants were prior to the meeting provided a copy of the theoretical framework with a covering letter detailing the purpose of the focus group session. A copy of the focus group's briefing letter is provided in Appendix 6.

4.8.2 Data collection process

There are research limitations in interpretative case studies. For example, Spitler (2002) contends that the timing of data collection is not in the researcher's control. Flexibility is the key to successful data collection in interpretative case studies according to Klein and Myers (1999). Often the data collection process does not go to plan. Accordingly, the data collection process factored in time delays due to interviewees not being able to attend interviews on the days allocated. Accordingly, the interview process required some flexibility and patience to ensure that the interview process was conducted in an expedient and efficient manner.

There was a potential risk that interview candidates would resign from the case study organization or otherwise not be available for interviews. Accordingly to ensure that the data was current and relevant for the research study the original data was refreshed for all cases some 12 to 18 months after the initial interview data was first collected. The same interviewees were interviewed and their responses of the prior session repeated. Where the interviewee disagreed with a prior response the updated response (where applicable) was noted and factored into the data collection. Similarly any queries or consistency unresolved from the archival documentation phase was raised with the interviewee.

The second phase or refresh phase of data collection and analysis allowed for a review of any updated archival documentation not available at the time of the first archival documentation phase. More importantly the second phase of interviews and data collection conducted in 2008, 2009 and 2010 took into account that for all case studies the outsourcing contract had run one full term by the time the last interview had occurred. This meant that all case studies could be evaluated on the basis of a complete outsourcing contract term.

The data collection process took place over the following time period for each case:

Case Study	<i>First Interview Phase</i>	<i>Archival and Source Documentation Phase</i>	<i>Second Interview /Refresh Phase including further review of updated Archival Documentation</i>
Case A	October 2006 to March 2007	October 2006 to March 2007	December 2008 to March 2010
Case B	November 2006 to February 2007	November 2006 to February 2007	October 2008 to February 2010
Case C	October 2006 to January 2007	October 2006 to January 2007	November 2008 to September 2009
Case D	September 2006 to December 2006	September 2006 to December 2006	December 2008 to January 2010
Case E	August 2006 to December 2006	August 2006 to December 2006	November 2008 to October 2009

Table 4-1 : Data collection case study timeline

Data collection timeline

Data was collected initially from the third quarter of 2006 to the third quarter of 2007. However at that time, none of the case study outsourcing contracts had completed the contract term. Therefore additional data collection was necessary to clarify and obtain further data for all of the case studies. Further data collection was completed from mid 2008 to early 2010 by which time all outsourcing contracts relevant to each case study organisation had completed a full contract term. This assisted in keeping the data collection process timely and consistent for all the five case studies. This was deemed critical to the study as it ensured that all data for the case studies could be reported, analysed and findings made on the basis of a complete outsourcing contract arrangement having been completed for each of the five case studies.

The two hour focus group session was conducted on October 12, 2010 at the RACV Business Centre, 501 Bourke Street, Melbourne Victoria.

Collection and sources of data

The data for the five case studies was collected from interviews and from reference to archival documentation relevant to the outsourcing arrangement pertaining to that case study. Documentation perused, reviewed and analysed consisted of:

- Contractual outsourcing documentation including ancillary documentation where relevant entered into between the supplier and organisation
- Technical and user manuals and guides pertaining to the outsourcing arrangement
- System reports including screen dumps and file dumps
- Internal reports and memorandums
- Correspondence of various types (letter, fax and email)
- Vendor operating manuals
- User organisation manuals
- Selected organisational files, memorandums and emails
- Historical performance data
- Annual reports
- Web site information

The data collection process for the five case studies involved:

- Interviews of 22 case study organisational participants, 6 focus group participants and 20 supplier participants over the five case studies
- Interview sessions totalling 49 over the five case studies (32 individual sessions, 17 group sessions)

- Interviews of supplier representatives relevant to each of the case study outsourcing arrangement
- Review of archival and source documents over the five case studies
- Perusal, review and analysis of approximately 1200 pages of printed documentation, correspondence, system reports and supporting materials

Data collection recording process

The data collected from the interviews and documentation review and analysis was coded on a computer spreadsheet system designed for the research. For each case study a separate spreadsheet was created. Within the spreadsheet, the success factors framework phases and sub phases were listed in the order presented in chapter 3. Data collected in text format including source of data was entered into the relevant case study spreadsheet in the same order phase or sub phase category of the success factors framework. The data recording was consistent with the coding methodology outlined in this chapter. Open and selective coding techniques were used to record the data collected. Open coding involved for each case study recording the text transcribed from the interviews and source documentation to ascertain themes and supporting empirical data for each of the framework phase or sub phase. If there was no such theme or empirical data in support of the framework phase or sub phase then a note was made that no evidence could be found. Consistent with selective coding techniques, the original text obtained from interviews and documentation was reshaped as required to integrate the data collected to the phases and sub phases in the framework. The original text transcribed from interviews and documentation is presented in each case study spreadsheet side by side with the context interpretation of the data collected. This coding approach allowed for the research findings presented in chapters 5 and 6 to utilise the pattern matching approach recommended by Yin (2003) for case study analysis. Put simply, the data outlined in chapters 5 and 6 was collected so that the empirical data of the five case studies could be compared to the predicted data or themes from the framework phases and sub phases. Where there was a 'match' with the case study data, then the framework could be deemed to be validated, that is the framework was consistent with the empirical data from the case studies.

4.9 Data Analysis

According to Eisenhardt (1989) case study data analysis is often considered to be a difficult and not well developed part of case study methodology. The researcher often has to make judgments and decisions as to how to conduct data analysis in case study

methodology. Some guidelines exist in the literature to assist the researcher make more informed decisions as to which data analysis strategies and processes to adopt.

4.9.1 Data analysis strategies

The literature distinguishes two data analysis strategies relevant to case studies that may be adopted by the researcher. These strategies consist of a macro perspective and a micro perspective.

From a macro perspective

The macro perspective has two general perspectives identified in the literature (Eisenhardt 1989 ; Sabherwal 2003 ; Yin 2003). These two general steps are the within case analysis and the cross case analysis.

The within case analysis consists of some key processes being:

- Consideration of insights gained from transcripts (Sabherwal 2003)
- Detailed case study write ups for each case (Eisenhardt 1989)
- Condense the large amount of data into insights gained (Gersick 1988 ; Pettigrew 1988)

The cross case analysis compares data across cases. Sabherwal (2003) considers that a macro view of the each case is required. Perry (1998) argues that cross case analysis requires the researcher to demonstrate analytical skills and expertise. In specific terms, Eisenhardt (1989) recommends that in cross case analysis that the process in order of required steps is to:

- Select categories or dimensions
- Look for within group similarities
- Look for inter group differences

Eisenhardt mentioned two other tactics related to cross case analysis involve selecting pairs of cases and then to list similarities and differences between each pair and the other tactic is to divide the data by data source. Cross case analysis improves the accuracy and reliability of theory building.

Both within case analysis and cross case analysis is presented in chapters 5 and 6.

From a micro perspective

Coding of the data is the data analysis process for each case that generates themes. Strauss and Corbin (1990) state that coding forces data to be broken down,

conceptualized and then remodeled in different ways. They identified three types of coding. These types are: open coding, axial coding and selective coding.

Open coding requires labeling and categorizing of the subject matter. This will produce a set of themes. For the purposes of this research, open coding was utilised on the data collected in hardcopy format from interviews and archival documents. The transcripts of interviews and other case study data were highlighted. Tesch (1999) considered that highlighting raw hard copy data into relevant and ordered pieces of texts would assist to segment the data in an orderly and meaningful manner. Where the data highlighted a similar occurrence, the data related to similar occurrences were grouped together and labeled. Strauss and Corbin (1990) considered the process of grouping themes at a higher and abstract level to be categorising the data.

Axial coding involves making connections between categories and sub categories. This is often done in table format where labels of codes, themes and categories are linked back to each piece of text derived from the raw data. These relationships between codes/themes, sub categories and categories are presented usually in a hierarchical structure for the purpose of this research. The research aims did not require making connections between categories and sub categories.

Selective coding involves integrating categories developed from the initial theoretical framework. Strauss and Corbin (1990) considered selective coding deals with relationship between discrete categories. For the purpose of this research, selective coding worked to use the original text, codes, memos and case summaries and the linkages between them to reshape the interviewee comments in a different context. Where this occurs, the original text and the presentation of this text in a different context is presented side by side.

4.9.2 Data analysis process

The processes of data collection and data analysis are often overlapped. Eisenhardt (1989) sees this as an advantage. Harris and Sutton (1986) welcomed the fact that along the way adjustments can be made to the data collection instrument. For this research, a small pilot interview phase was undertaken prior to the formal interviews commencing. This achieved a number of positive outcomes. Firstly, the interview guide and instrument was revised to be clearer where there was some confusion in the questions proposed to be asked. Secondly, the interview guide was structured to cater for a number of interview categories rather than maintain separate interview guides for different categories.

A systematic analysis of interview transcripts and archival documents was completed as part of the data analysis process.

4.9.3 Pattern matching data analysis approach used in the study

Pattern Matching Analysis

The data was analysed in the study for evidence that that empirical data was consistent with the predicted outcome of the framework. For each of the phases and sub phases in the framework, the study analysed the data collected as to whether the predicted outcome being the framework outcome was supported by the empirical evidence from the case study. If the two were consistent, then it was said that there was evidence of pattern matching and according to Yin (2003), the study would have established internal validity as it could be said that the framework had been validated with reference to the five case studies. For each of the five case studies, the data was analysed in the case study spreadsheet as to whether the predicted framework outcome was met. For example, in phase 1, it was required in the framework that as part of phase 1, a business case outlining the merits or other wise of outsourcing be prepared. The business case should consider base line costs. Accordingly, the study considered what happened for each case study (the actual outcomes) against whether a business case and base line (the predicted outcomes) were in fact prepared. If this was the case then it was considered that a pattern had been established for this component of the outsourcing framework. This analysis of the data collected was undertaken for each of the predicted outcomes being the phases and sub phases of the success factors framework. This enabled an overall assessment to be made as to the extent that that phases and sub phases of the framework were evident in any of the five case studies.

4.9.4 Conventions used in the study in data recording, collection and analysis

Conventions used in presenting and reporting on the data and findings

The case studies involved the perusal, review and analysis of commercially confidential data pertaining to major Australian real estate outsourcing contracts. In chapter 1, it was mentioned that the study had been granted ethics approval and sign off as required by the university. Ethics approval granted by Victoria University for this study required that the name of the case study organisation and case study interviewees not be disclosed given the confidential and commercially sensitive nature of the data and outsourcing arrangements considered in the research. Prior to commencing the data analysis, a confidentiality undertaking was executed by the researcher with each case study participant for the researcher not to disclose, use or disseminate any information

or material provided by the case study participant for purposes of the study. A copy of this confidentiality undertaking is enclosed as Appendix 7. In keeping with confidentiality requirements, the case study naming and referencing conventions adopted in this study for reporting of the data collected and research findings are:

- Case study organisations are referred to as Case A, Case B, Case C, Case D, Case E. Accordingly, Case A refers to case study organisation A, Case B refers to case study organisation B and so on.
- Case study interviewees are noted as Inter followed by the case study organisation and participant number. By way of example, Int A-1 when referred to in the research will refer to interviewee 1 pertaining to case study A. Appendix 3 contains some background details of each interview participant and their organisational title.
- Case study documents perused, reviewed and analysed are noted as Doc followed by the case study number and the document number. For example, Doc A-1 refers to a Document 1 pertaining to Case Study A, Doc B-2 refers to Document 2 of Case Study B. Appendix E adopts this naming convention and contains details of the documentation perused, reviewed and analysed as part of the study.
- Suppliers performing the outsourcing services relevant to each case study organisation are referred to as Supp A, Supp B, Supp C, Supp D, Supp E. By way of example, Supp A refers to the supplier relevant to the outsourcing arrangement of case study A, Supp B refers to the supplier relevant to the outsourcing arrangement of case study B and so on. Supplier representatives are referred to as Supp followed by the case study organisation and participant number. For example, Supp A-1 refers to supplier participant 1 relevant to case study A, Supp B-1 refers to supplier participant 1 relevant to case study B and so on.
- Focus group participants were noted as Focus P-1, Focus P-2. By way of example Focus P-1 refers to focus group participant 1, Focus P-2 refers to focus group participant 2 and so on.

For sake of convenience and ease of reference where the source of the data refers to an interview and a document, the notation will show both in brackets at the end of text. For example, the notation (Int A-1, Doc A-1) will refer to the source of the data comment can be found in an interview with participant A1 of case study A and Document 1 of case study A. It is acknowledged that this approach may prove tedious given the extent of data collected and presented in chapters 5 and 6. However, the ethical constraints of this study ensure that there is no avoiding using some form of

case, document and participant referencing system as actual names of cases and participants could not be used.

4.10 Underlying assumptions of the study and whether they were met

The study has made a number of assumptions outlined in chapters 1, 3 and this chapter. These assumptions in respect to data collection and analysis, case study participants, scope of corporate real estate outsourcing service, defining success in corporate real estate and the underlying principles of the success factors framework. The assumptions inherent in the study are deemed to have been met.

Data collection and analysis

The study conducted data collection and analysis in terms of the manner outlined in this chapter. There were no impediments to access to interviewees or access to documentation required for purposes of the study.

Case study participants

The five case studies fall within the requirements and scope of the study detailed in chapters 1 and 3. All case contracts are considered 'major real estate' outsourcing contracts for the purpose of the study. The scope of real estate outsourcing services pertaining for the five case studies is the table 4.2.

The data presented in table 4.2 has been derived from the 2009 annual accounts for each case study organisation and the relevant outsourcing contract pertaining to the case study. Real estate portfolio values shown in the table include the value of freehold and leasehold interests. The value of real estate outsourcing contract represents the amount that is payable to the supplier of the outsourcing services for services provided to the organisation under the outsourcing arrangement. To ensure consistency in reporting the value of the real estate outsourcing contract for each case study, all values are reported in the table as at June 30, 2009. The real estate outsourcing contract term start and end dates pertaining to each case study are also shown in table 4.2.

Case Study Organisation	Nature of Operations	Value of Real Estate Portfolio including leasehold interests (as at 2009 Financial Year)	Value of Real Estate Outsourcing Contract as at June 30, 2009 Contract term – start and end dates
Case A	Financial Services including retail branch network – 815 retail branches, offices	\$2.1 billion	\$12million (Contract term : June 2004 – July 2009)
Case B	Retailer and wholesaler of electrical goods and equipment – 4 warehouse distribution outlets and 93 retail stores throughout Australia	\$350 million	\$4million (Contract term : February 2005 - February 2009 with further option of 2 years)
Case C	Communications provider including 62 retail sales operations, communication towers and head office and state administration/sales throughout Australia	\$480million	\$5.4million (Contract term : April 2006 – April 2009)
Case D	Outer North Suburban Melbourne Council covering an area of 487 square kilometres and servicing 138,000 residents, various property types council administration, preschool, libraries, halls, sport amenities, golf course, drainage parks and road network.	\$950million	\$10.6million (Contract term : December 2003 – March 2009)
Case E	Petrol and convenience store retailer made up of head office, state warehouse distribution centres and 89 corporate and 47 franchise stores located principally on the Eastern Seaboard of Australia	\$600million	\$6.1million (Contract term : January 2004 – May 2009 including extension term allowed under contract)

Table 4.2 (Background of case study participants)

Source : Annual reports 2009 and other information sourced

Focus group participants and group process

In keeping with the recommended approach in Morgan (1997), the focus group session was free format. Each participant was invited to discuss openly the theoretical framework and its relevance and utility to Australian corporate real estate outsourcing. To reduce moderator bias in the process, each participant was given 5 to 10 minutes to discuss his or her view of the theoretical framework. A two hour session was held on October 12, 2010. Chapter 6 outlines the discussion and comments made in the focus group session. It is recommended by Morgan that focus group sessions are taped if possible to ensure that a proper record of the session can be made. It is possible that important comments could be missed if the session is not taped. However, for reasons of confidentiality required as a condition of Victoria University ethics approval and undertaking to focus group participants the focus group session was not taped.

4.11 Validation of Research Outcomes

The criticism with qualitative research paradigms is that the research process by its nature involves a significant amount of subjectivity. This in turn can increase bias and thereby reduce constructs of reliability and validity. Merriam (1998) was of the opinion that interpretive research did not easily lend itself to objectivity and therefore this would impact on constructs of reliability and validity. However, subjectivity in interpretive research paradigms can adversely affect the inferences made and thereby reduce the validity of inferences made. As part of the research process, strategies directed to improving reliability, validity and authenticity were applied where possible. Source documentation and archival records supported and complemented the data gained from the interview process for each case study. Differences were investigated and resolved as part of the research.

Reliability in the interpretive case study scenario refers to consistency in the conduct of research, the collection and interpretation of data (Neuman 1994). A case study protocol involving maintenance of case study files and data base assisted in maintaining dependency and consistency. Neuman (1994) defined validity as truthfulness in the relation between constructs and data. Constructs such as validity and reliability were maintained or enhanced by:

- Triangulation strategies (multiple data sources and multiple perspectives from interviewees)
- Overview of research process to meet research aims and objectives
- Focus group to deliberate on research outcome utility and practical uses
- Clarification of research paradigm and theoretical orientation of research

The validation of the research has been derived from the five case studies that allow the researcher to make assumptions on the generalisability of the research conclusions

and the focus group that meet the other research aim and objective as to whether the outsourcing framework developed has industry participant acceptance as to its utility and function in Australian corporate real estate outsourcing.

4.11.1 Consideration and rejection of use of other research techniques

The study considered quantitative research techniques such as sampling and related statistical techniques. The level of detail and understanding required by the study was deemed not to be sufficiently covered by sampling data collection and statistical data analysis.

4.12 Ethical Considerations

The Faculty of Business and Law Human Research Ethics Committee approved the proposed research from the point of view of ethical policy. The approval reference is BHREC 2002/3. Privacy matters were also considered as part of the research. Although a small number of the case study participants consented to be named in this thesis, others formally requested that they not be named. Accordingly, the decision was taken for reasons of privacy and in keeping with the wishes of those participants who requested not to be named, none of the case study or focus group participants have been named directly. All references to the case study participants are by number as outlined throughout this thesis. Similarly, the six focus group participants have been identified by a number reference whenever referred to in this thesis.

4.13 Chapter review and conclusion

Chapter 4 provided a comprehensive outline of how the research was conducted to meet the stated research aims and objectives. The main research strategy was the use of five case studies. Interpretative case studies were the specified research paradigm. Five case studies were conducted. A focus group session was also conducted. For the case studies, data was collected from a variety of participants. Case study data analysis was collected from interviews and archival documents. The organization and vendor were both considered in the case study interview process. This provided a broader insight into the respective outsourcing process. Data collection and analysis research strategies were adopted. Ethical considerations were also considered.

Chapter 5 presents the detailed data collection obtained for the five case studies – phases 1 to 2 of the outsourcing framework. Chapter 6 presents the detailed data collection and findings for the five case studies – phases 3 to 5 of the outsourcing framework. The data collected and findings for the focus group session are presented in chapter 6.

Chapter 5 : Data Collection, Analysis and Findings – The Five Case Studies (Phases 1 to 2 of the outsourcing framework)

5.1 Introduction

Chapter 5 presents the data collected from five case studies involving the outsourcing of corporate real estate functions. For ease of readability, the case study data collection, analysis and findings are divided over chapters 5 and 6. This chapter is concerned with the first two phases of the outsourcing framework while chapter 6 is concerned with phases 3 to 5 of the outsourcing framework. Chapter 3 presented the corporate real estate success factors framework. The framework is structured on the basis of a five phase approach to outsourcing. Within each phase are various tasks and sub tasks. At the conclusion of each phase there are deliverables and milestones that need to be completed prior to the commencement of the next phase. The research aim and objectives outlined in chapter 4 require that the real estate success factors framework developed as part of the study and presented in chapter 3 is assessed against five actual major real estate outsourcing arrangements.

A suitable case study methodology research technique was adopted. The study adopted the 'pattern matching' logic recommended in Yin (2003). This requires the predicted pattern being the framework phases, tasks and milestones to be compared to the empirical pattern being the actual case study experience. If there is match between the predicted pattern and the empirical pattern, then according to Yin, a pattern has been established that provides for internal validity of the outsourcing framework developed in this study being considered of assistance in the explanation of success factors in Australian corporate real estate.

To ensure that the data collection process from the five case studies was comprehensive and the empirical data collected had some basis some 1200 pages of printed documentation was reviewed and 21 participants from the subject case studies were interviewed singularly or in a group setting. To ensure that the five cases were assessed on the basis of complete outsourcing contract term, the initial data collection and analysis process took place in 2006 and 2007 and revisited in 2008, 2009 and 2010. Accordingly, all case data has been collected on the same basis in respect to contract term, namely that the study collected empirical case study data where all cases had completed a full contract term.

The framework format presented in chapter 3 was used consistently for all the five case studies in the collection of data. Accordingly, the data presented in this chapter and chapter 6 follows the format and presentation of the framework presented in chapter 3. The data collected from the case studies was analysed and presented in this chapter. Details on the focus group session and results are presented in chapter 6.

5.2 General outsourcing considerations for each case study participant

Scope of the corporate real estate services outsourced pertaining to the five case studies

The scope of corporate real estate services outsourced pertaining to the five case studies were consistent with the scope of services identified in chapter 3. The scope of works, functions and operations that were applicable to the outsourcing arrangement for each of the case studies comprised the following corporate real estate functions and services:

- Facilities management services including but not necessarily limited to all day to day routine repairs, lighting, cleaning, security, rubbish removal, contractor and building services warranty monitoring and related services
- Annual and programmed maintenance of building services and functions
- Safety building audits, emergency lighting services and reviews including annual review and maintenance of emergency services
- Maintenance of a dedicated call centre/help desk by the supplier to manage and implement the delivery of outsourcing services on behalf of the organisation
- Maintenance of a dedicated information system maintained by the supplier but allowing access by the organisation within the scope of the outsourcing arrangement
- Property management services including dealing with estate agents and statutory bodies in respect to permits, GST obligations, rates, taxes and required approvals pertaining to property and building matters
- Sales, leasing and procurement of real estate for and on behalf of the organisation
- Property cost administration and payment of property operational expenses on behalf of the organisation including property capital expenditure
- Capital works design, project management and delivery of new fitout and refurbishment to a specific site or sites
- Property valuation and advisory services

The study disregarded any non real estate services and functions that were conducted by the supplier and included as part of the core real estate outsourcing agreement. For example, Supp D provided vehicle maintenance services to Case D that were 'tacked on' and ancillary to the main real estate outsourcing agreement. This part of the outsourcing contract between Supp D and Case D although minor in value was not assessed as part of the study. There were no such issues for the other outsourcing agreements pertaining to the other case studies. Accordingly, the scope of services and functions pertaining to the real estate services and functions being outsourced for all case studies were deemed consistent with those outlined in the success factors framework.

Defining outsourcing success – case study participants

The study properly considered the definition of outsourcing success as outlined in chapters 2 and 3. The framework outlined in Chapter 3 was developed to enhance outsourcing success in the implementation and delivery of major Australian corporate real estate outsourcing contracts. Accordingly, the framework assumes that the outsourcing arrangement is considered successful if it meets three criteria being:

- The outsourcing arrangement meets the aims and objectives set by the organisation for outsourcing
- The outsourcing arrangement does not conflict with or otherwise compromise broader organisational goals and performance
- The drivers for outsourcing as identified at the time of the inception of the outsourcing arrangement have been met.

Drivers for outsourcing – case study participants

For each of the case studies, the main aims, drivers and objectives of outsourcing of corporate real estate functions in priority of importance to the organisation were:

Case A - Aims, Drivers and Objectives of Outsourcing:

1. Cost reduction and savings
2. Service quality improvement
3. Conservation of capital
4. Reduction in the number of non performing staff
5. Acquisition of competencies not within the organisation
6. Reduction of resources devoted to 'non core' activities
7. Access to technology

Case B – Aims, Drivers and Objectives of Outsourcing:

1. Service quality improvement
2. Concentration on core activities
3. Cost reduction and savings
4. Acquisition of competencies not within the organisation
5. Access to technology
6. Conservation of capital
7. Reduction in the number of non performing staff
8. Business changes to the scope and size of the business

Case C – Aims, Drivers and Objectives of Outsourcing

1. Service quality improvement
2. Cost reduction and savings
3. Business changes to the scope and size of the business
4. Acquisition of competencies not within the organisation
5. Reduction of resources devoted to 'non core' activities
6. Access to technology
7. Conservation of capital
8. Reduction in the number of non performing staff

Case D – Aims, Drivers and Objectives of Outsourcing

1. Business changes to the scope and size of the business
2. Cost reduction and savings
3. Service quality improvement
4. Acquisition of competencies not within the organisation
5. Reduction of resources devoted to 'non core' activities
6. Access to technology
7. Meeting legislative and statutory requirements
8. Reduction in the number non performing staff

Case E – Aims, Drivers and Objectives of Outsourcing

1. Business changes to the scope and size of the business
2. Cost reduction and savings
3. Service quality improvement
4. Focus on core business strategies
5. Meeting legislative and statutory requirements
6. Acquisition of competencies not within the organisation
7. Reduction of resources devoted to 'non core' activities
8. Access to technology

9. Conservation of capital
10. Reduction in the number of non performing staff

Outsourcing success – the 5 case studies (the successful and the unsuccessful)

Out of the five case study outsourcing arrangements studied, two were considered to be overall unsuccessful in not meeting core aims and objectives set by the organisation for outsourcing corporate real estate functions. Three of the case studies considered the corporate real outsourcing arrangement entered into with the respective supplier to be successful in meeting overall core and secondary objectives pertaining to outsourcing.

The Unsuccessful Outsourcing Arrangements

Case A (overall dissatisfaction with the outsourcing arrangement)

The key financial core aims were not met. According to Int A-1, the whole outsourcing experience was “well below expectations”. Int A-1 and Int A-2 commented that the outsourcing arrangement created “difficulties and challenges” to the broader organisation. The only benefit according to Int A-2 was that outsourcing helped “clear some non performing staff which could not have happened without this”. Of particular concern to Int A-2 was that capital and operational real estate costs had increased significantly (approximately 6% per annum and well above general price level increases) from the baseline cost applicable at the time the contract was entered into. Six out of seven objectives for outsourcing were not met (Int A-1, Int A-2, Doc A-7). Overall the outsourcing arrangement with Supplier A was considered unsatisfactory by Case A.

Case C (overall dissatisfaction with the outsourcing arrangement)

The key service improvement and cost reduction objectives were not met according to Int C-1. Of particular concern was that service standards appeared to have gone backwards. Int C-1 and Int C-2 considered that the outsourcing arrangement had “generally brought confusion and uncertainty” to the day to day property management operations” and therefore affected their other stakeholders. This impacted on broader organisation performance and according to Int C-2 meant that “business units were not provided the best working conditions”. The introduction of new technology was considered the only benefit but according to Int C-2, this was a “secondary consideration” to the reason why outsourcing was considered in the “first place”. Seven out of eight objectives for outsourcing were not met (Int C-1, Doc C-4). Overall the outsourcing arrangement with Supplier C was considered unsatisfactory by Case C.

The Successful Outsourcing Arrangements

Case B (overall satisfaction with the outsourcing arrangement)

The outsourcing arrangement was considered very successful according to Int B-1. He considered that all objectives set by the organisation for outsourcing in the first place were met by the outsourcing arrangement. According to Int B-1, it was the “best management decision made in the last five years”. From an organisation viewpoint, the outsourcing arrangement allowed the organisation to focus on core business activities and leave the management of real estate operations to Supplier B. Eight out of the eight objectives were deemed to have been met (Int B-1, Doc B-4, Doc B-7).

Case D (overall satisfaction with the outsourcing arrangement)

The outsourcing arrangement was considered to be successful. Int D-1 considered that the main objectives were met and had made a significant improvement to broader organisational efficiencies and effectiveness. Without the outsourcing arrangement, the ability of the council to expand its services would have been difficult. Int D-3 lamented that the technology interface between the supplier and the council required some improvement. However this was rectified during the outsourcing contract according to Int D-3. In addition, Int D-2 thought that the supplier was sometimes slow in implementing processes to take into account legislative changes. He gave examples of the supplier being at times slow to provide council details of changes required by law to safety and access requirements for ‘disabled and aged persons’ community facilities. Six out of eight objectives required by the council were deemed to have been met in whole and two out of the eight objectives were met in part (Int D-1, Doc D-3). Int D-2 stated that the “main objectives were more than met”. Overall the outsourcing arrangement was considered to be successful for Case D.

Case E (overall satisfaction with the outsourcing arrangement)

The outsourcing arrangement was deemed by the organisation to be very successful. Int E-1 commented that they are “not in the property management business” and their prior in house real estate unit had “a lot of dead wood” that struggled to get things done. From an organisational viewpoint, Int E-2 believed that the timely receipt of property operations and management reporting assisted in decision making. Int E-1 stated that capital costs were not greatly different from prior to outsourcing and this was the only objective that was not met. However, Int E-2 stated that this was “not a major matter when considered in its proper context” given that their capital expenditure budget on real estate would have increased in any case given the growth of the business by 40 sites since the commencement of the outsourcing arrangement. Nine out of ten objectives set for entering into the real estate outsourcing arrangement were

deemed to have been met (Int E-1, Doc E-6). Overall the outsourcing arrangement was deemed to be successful by Case E.

For convenience, where there is a reference to ‘successful cases’, this will refer to cases B, D and E. Similarly, where there is a reference to ‘unsuccessful cases’, this will refer to cases A and C. The successful cases met in full or in large part their stated aims, drivers and objectives for outsourcing of corporate real estate. The unsuccessful cases did not meet their core aims or many of their secondary aims and objectives. The table below outlines with an ‘X’ the aim/driver/objective met in the outsourcing arrangement and whether met in full denoted as ‘Met’ or in part denoted as ‘Part’.

Aims/ Drivers/ Objectives Met From the Outsourcing Contract	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Cost reduction and savings	X Met	X Met	X Met	X Not Met	X Not Met
Service quality improvement	X Met	X Met	X Met	X Not Met	X Not Met
Conservation of capital	X Met		X Not Met	X Not Met	X Not Met
Acquisition of competencies	X Met	X Met	X Met	X Not Met	X Not Met
Focus on core activities	X Met		X Met		
Reduction in non core resources		X Met	X Met	X Not Met	X Not Met
Legislative requirements	X Met	X Part	X Met		
Technology access	X Met	X Met	X Met	X Not Met	X Not Met
Reduction non perf. staff	X Met	X Met	X Met	X Met	X Met
Business changes		X Met	X Met		X Not Met

Table 5.1 : Meeting the aims/drivers and objectives of outsourcing - the 5 cases

5.3 The five phase approach to outsourcing – the case study experience

Risks identified in outsourcing need to be dealt with in the first phase of the outsourcing framework. The success factors framework provides for a five phased approach to derive outsourcing success and deal with or otherwise mitigate the risks discussed in section 5.4.1. The five phases of the success factors framework comprise:

- Phase 1: Setting objectives, preliminary analysis and review of options relating to outsourcing and other options
- Phase 2: Tender, negotiation and selection of successful supplier
- Phase 3: Transition to outsourcing
- Phase 4: Managing the outsourcing contract
- Phase 5: Contract expiry

Evidence of a five phase approach to corporate real estate outsourcing

From the interviews and documents reviewed pertaining to each case study outsourcing arrangement, it would appear that the five distinct phases in the success framework were consistent for the approach to outsourcing conducted in the successful

cases. For Case A and Case C, phases 1 and 2 appear to have been merged as one phase. In both instances there was no distinct phase 1 and phase 2 but rather a phase the incorporated a number of phase 1 and 2 activities into their initial phase of the outsourcing process. This was not the case for phases 3, 4 and 5. For these cases, there appears to be three distinct phases as per the framework in the outsourcing process for Case A and Case C. The following table summaries the five phases of their framework and their applicability to each of the cases. For the successful cases there were five distinct phases in line with the phases outlined in the outsourcing framework while the unsuccessful cases completed only three of the five phases as outlined in the outsourcing framework.

Phases in the outsourcing framework and whether completed in each case	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Phase One	X	X	X		
Phase Two	X	X	X		
Phase Three	X	X	X	X	X
Phase Four	X	X	X	X	X
Phase Five	X	X	X	X	X

Table 5.2 : Phases completed for successful versus unsuccessful cases

Taking each case in turn, the general approach to outsourcing adopted by the organisation is as follows:

Case A

According to Int A-1 and Int A-2 the decision to outsource corporate real estate was made by senior management in late 2003. The culture at the time was to outsource non core activities according to Int A-1 and Int A-2. Property management and operations were deemed at the time to be non core activities. Int A-2 believed that management viewed property management outsourcing as a test case for outsourcing other non core operations within the organisation. Disregarding that property management and operations were managed for many years inhouse, the senior management direction for Case A was to outsource corporate real estate functions with no regard for consideration of maintaining property management operations in house. The commentary in Doc A-4 would indicate that there was no analysis conducted on maintaining the status quo as against outsourcing corporate real estate functions. Int A-1 stated that by January 2004, the decision to outsource corporate real estate was made final and the process to find a supplier had commenced.

Int A-1 and Int A-3 confirmed that a transition period was conducted from April 2004 to June 2004 when in June 2004 the outsourcing contract went live. The transition program highlighted in Doc A-4 and discussions with Int A-2 would confirm this.

Documents Doc A-1, Doc A-3 and Doc A-5 and interview discussions with Int A-1 confirmed a phase 4 (management of the contract) and Doc A-8 outlined a phase 5 which included assessment, review and negotiation of contract expiry.

Case B

The review of outsourcing options and setting of objectives, aims and drivers for outsourcing took a number of months and according to Int B-1, the process was completed in September 2004 after some 9 months of analysis. Documents Doc B-2 and Doc B-3 detailed the process of review and consideration of options prior to beginning the outsourcing tender. The tender process was conducted over a two month period and the transition program began in November 2004. Int B-2 confirmed the contract went live in February 2005. Int B-1 and Doc B -1 confirmed that the outsourcing arrangement had a term of 4 years. Doc B -6 confirmed a contract review process commencing around five months prior to the contract expiring and Doc B-7 detailed the negotiation actions taken at the time of expiry of the contract.

Case C

Similar to Case A, there appeared to be no distinct phase 1 for Case C. The decision to outsource property management operations had been made in early 2005 following a major review and recommendation by management consultants. Int C-1 outlined that workshops were held during the first half of 2005 on outsourcing property management and operations. According to Int C-2, the decision to outsource corporate real estate functions was a "fait accompli". By late 2005, the search for a supplier had begun as confirmed by Int C-1. Documents Doc C-3 and Doc C-5 indicate that for the large part there was no substantive analysis on options other than the work done by the management consultants in October 2005. The transition program started in February 2006 and the contract went live in April 2006. Documents Doc C-2, Doc C-4 and Doc C-5 support that there was distinct phases pertaining to management of the outsourcing contract and an expiry process and negotiations pertaining to expiry.

Case D

Local councils in Victoria have a long history in outsourcing as a result of the compulsory tendering regime made mandatory by Victorian state government order for councils to follow since 1992. Accordingly, Int D-1 confirmed that the outsourcing of corporate real estate was required to be conducted with a stringent review and analysis phase as the first phase. The analysis and review phase commenced in early 2000 and various reports were prepared and issued to senior management and councillors during 2001 and 2002 (Doc D-2, Doc D-3). Int D-2 confirmed that by late 2002 the decision to outsource corporate real estate functions was signed off by senior

management and councillors. Int D-3 confirmed that the tender process took some 6 months and the transition process took another 6 months. Int D-3 confirmed the contract went live in December 2003. Documents Doc D-2, Doc D-5 and Doc D-6 and discussion with Int D-1 confirmed that there was a distinct management phase pertaining to the contract. Int D-2 outlined the process on expiry of contract that was undertaken. The various processes undertaken prior to expiry of contract are outlined in Doc D-8, Doc D-9 and Doc D-13.

Case E

Int E-1 confirmed that the review and analysis phase took some 6 months during the first half of 2004. He also confirmed that the selection of the success supplier took a further 3 months and the transition to outsourcing took a further 3 months. Document Doc E-1 outlined the start date of the outsourcing contract which was consistent with Int E-1 confirmation that the contract went live in December 2004. Int E-2 and Int E-3 confirmed the contract was managed for term of the contract ending in December 2008. Documents Doc E-4 and Doc E-5 outlined contract expiry process and associated negotiations. Doc E-9 and Doc E-11 outlined the analysis and negotiations relevant to contract expiry.

The successful cases demonstrated five distinct outsourcing phases while the unsuccessful cases did not. Cases A and C did not have distinct phase 1 and 2 as proposed by the framework. There was evidence that they nevertheless had phases 3, 4 and 5 in their outsourcing process.

An investigation as to each of the 5 phases of the success factors framework and the data obtained in respect to the 5 phases obtained from the five case studies follows. The five phases are assessed in turn beginning with phase one. For each phase, the relevant tasks, inhibitors and deliverable pertaining to that phase are presented.

5.4 Phase 1 : Setting objectives, preliminary analysis and review of outsourcing as a feasible option

Phase 1 is the initial phase of the outsourcing framework. The successful cases performed the required tasks outlined in the framework as being phase 1. On the other hand, the unsuccessful cases did not perform many of the required tasks for phase 1. The following table summarises the number of phase 1 functions performed respectively by the successful versus the unsuccessful cases. For the successful cases, the phase one tasks and processes in the outsourcing framework were consistent with the case study experience. The following table provides an overview of each phase 1 task and sub task and whether this was consistent with the successful cases.

Phase One analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Consideration of risks that may impact on outsourcing success					
Vendor risk	Yes	Yes	Yes	Limited	Limited
Reputational risk	Yes	Yes	Yes	Yes	Yes
Operational risk	Yes	Yes	Yes	Limited	Yes
Transfer risk	Yes	Yes	No	No	No
Financial risk	Yes	Yes	Yes	Yes	Yes
Latent cost risk	Yes	Yes	Yes	No	No
Business risk	No	Yes	Yes	No	No
Outsource organisational, not strategic functions					
Assess materiality and importance of function and service to strategic direction	Yes	Yes	Yes	No	No
Utilise appropriate quantitative and qualitative techniques to ascertain materiality of function	Yes	Yes	Yes	No	No
Setting clear business objectives and drivers					
Define business objectives and drivers from broad organisational objective	Yes	Yes	Yes	No	No
Define drivers for outsourcing decision	Yes	Yes	Yes	No	No
Consider stakeholder needs	Yes	Yes	Yes	No	No
Consider third party arrangements	Yes	Yes	Yes	No	No
Prepare business objectives matrix	Yes	Yes	Yes	No	No
Assess and deal with stakeholder conflicts	Yes	Yes	Yes	No	No
Assess drivers for outsourcing on broader organisational objectives	Yes	Yes	Yes	No	No
Senior management buy-in to outsourcing process					
Senior management champion or sponsor	Yes	Yes	Yes	Yes	Yes
Decision making steered for meeting organisational objectives	Yes	Yes	Yes	No	No
Early support from senior management to resolve bottlenecks and other issues	Yes	Yes	Yes	No	No
Senior management support to procure resources	Yes	Yes	Yes	Yes	Yes
Senior management support for steering team and project leader	Yes	Yes	Yes	Yes	Yes
No conflicts with day to day working of steering team	Yes	Yes	Yes	Yes	Yes
Identify external parties and stakeholders affected	Yes	Yes	Yes	No	No
Require input from affected stakeholders and third parties	Yes	Yes	Yes	No	No

Phase One analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Participation of stakeholders in steering team activities	Yes	Yes	Yes	No	No
Encourage inclusion and not exclusion in the outsourcing process of affected stakeholders	Yes	Yes	Yes	No	No
Stakeholder buy in encouraged					
Identify affected business units	Yes	Yes	Yes	No	No
Business unit represented on steering committee	Yes	Yes	Yes	No	No
Address grievances, disputes issues	Yes	Yes	Yes	No	No
Utilise senior management support to deal with grievances	Yes	Yes	Yes	No	No
Establish project team and accountabilities					
Establish project team charter and scope	Yes	Yes	Yes	Yes	Yes
Ensure multi disciplinary team	Yes	Yes	Yes	No	No
Obtain project champion sponsorship	Yes	Yes	Yes	Yes	Yes
Appoint appropriate team leader	Yes	Yes	Yes	No	No
Allocate sufficient resources to team	Yes	Yes	Yes	No	No
Define accountabilities and timelines	Yes	Yes	Yes	Limited	Limited
Assess role of external consultants	Yes	Yes	Yes	Limited	No
Ensure external consultants assist not hinder	Not Relevant	Not Relevant	Yes	Not Relevant	Not Relevant
Careful consideration of team leader					
Appoint suitably qualified team leader	Yes	Yes	Yes	No	No
Establish business case					
Relevant base line costs and risk analysis	Yes	Yes	Yes	No	No
Adopt total cost approach in setting base line costs	Yes	Yes	Yes	No	Limited
Independently verify business case and baseline costs	Yes	Yes	Yes	No	No
Categorise risks	Yes	Yes	Yes	No	No
Perform proper risk analysis	Yes	Yes	Yes	No	No
Create a risk evaluation template	Yes	Yes	Yes	No	No
Articulate service standards and manage stakeholder expectations					
Outline expected service and performance standards	Yes	Yes	Yes	Yes	Yes
Seek stakeholder input into service and performance standards	Yes	Yes	Yes	No	No

Phase One analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Prioritise stakeholder expectations from organisational viewpoint	Yes	Yes	Yes	No	No
Manage expectations of stakeholders and senior management as to outsourcing outcomes	Yes	Yes	Yes	No	No
Articulate achievable service standards to stakeholders and senior management	Yes	Yes	Yes	No	No
Articulate information gaps, problems and issues in outsourcing process					
Consider information gaps, problems and limitations	Yes	Yes	Yes	No	No
Assess severity of information gaps, problems and limitations	Yes	Yes	Yes	No	No
Incorporate findings in the business case	Yes	Yes	Yes	No	No
Devise formal communication strategy					
Communication strategy for organisational and external affected stakeholders	Yes	Yes	Yes	Yes	Yes
Focus on timely communication and monitor	Yes	Yes	Yes	Yes	Yes
Decide on suitable time and venue to communicate outsourcing process	Yes	Yes	Yes	Yes	Yes
Utilise different communication modes and channels to meet circumstances	Yes	Yes	Yes	No	No
Minimise risk to business and business continuity	Yes	Yes	Yes	Limited	Limited
Understand the legal requirements	Yes	Yes	Yes	No	No
Plan for and deal with human resource issues from the outset					
Assess human resource implications	Yes	Yes	Yes	Yes	Yes
Address financial, legal and statutory obligations	Yes	Yes	Yes	Yes	Limited
Devise strategy to deal with each class of affected employee	Yes	Yes	Yes	Yes	No
Devise and implement support strategies for affected employees	Yes	Yes	Yes	Yes	No
Devise human resource issues communication strategy	Yes	Yes	Yes	Yes	Yes
Assess likely candidates to assist post transition of outsourcing contract	Yes	Yes	Yes	Yes	Yes

Phase One analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Research specific outsourcing market					
Research actual outsourcing contracts in place	Yes	Yes	Yes	Limited	Limited
Adopt a hands on approach	Yes	Yes	Yes	No	Yes
Utilise feedback to assess suppliers and prepare documentation	Yes	Yes	Yes	Yes	Yes
Revisit risk considerations, desired service and performance standards in the light of this information	Yes	Yes	Yes	No	Yes
Build a partnering and alliance culture					
Business case to promote partnering and alliance culture	Yes	Yes	Yes	No	No
Define partnering and alliance principles	Yes	Yes	Yes	No	No
Instil partnering and alliance principles through broader organisation	No	Yes	Yes	No	No
Assess organisational culture through a culture audit	No	No	No	No	No
Act on findings of culture audit	No	No	No	No	No
Address individual management styles that inhibit partnering and alliance principles	No	No	Yes	No	No
Assess ways to transform the organisation to accept partnering and alliance principles	Yes	Yes	Yes	No	No

Table 5.3 : Phase 1 : Summary of case study performance

The considerations of risk are addressed as phase 1 activities. For each of the five case studies, the consideration of risk is outlined as follows:

5.4.1 Consideration of risks that may impact on outsourcing success

The framework requires prior to any consideration of outsourcing that a proper risk analysis is conducted at the outset of the main risks that involve outsourcing. All case studies considered risk to some extent. The successful case studies had more extensive risk analysis. The primary risks of outsourcing espoused in the framework and the consideration within each case study of that risk is outlined below.

Vendor Risk (vendor is not suitable or able to carry out duties)

All organisations considered this risk in some detail. The successful cases considered risk of outsourcing in more detail. Cases B, D and E conducted an extensive risk

analysis on potential suppliers and their ability to meet the requirements of the outsourcing contract. For the unsuccessful cases A and C, the analysis was limited to consideration of the number of suppliers able to perform the outsourcing tasks and their perceived track record.

Reputational Risk (reputation of organisation damaged as a result of the outsourcing arrangement)

Interestingly, this risk was considered in detail by the unsuccessful cases A and C. This is due to their public company status. Case D also considered reputational risk in some detail given their public status as a council. Cases B and E focused on reputational risks to their suppliers and franchisees from the outsourcing arrangement.

Operational Risk (efficiency and effectiveness of organisation adversely affected by outsourcing arrangement)

All organisations considered this risk. However, Case A did not consider this risk from a broader organisation viewpoint and focused on property division outcomes without consideration on the broader organisation. Case C similarly focused on the specific property outcomes on its property operations without considering the effect on the broader organisation. The other 3 successful case studies considered operational risk from a broader business viewpoint including ratepayers, customers, suppliers and external stakeholders such as franchisees as relevant.

Transfer Risk (difficulty and cost of transferring functions and services back in house)

Cases A, C and E did not consider this risk in any real detail, although Case E believed that the ability of transferring the outsourced real estate functions back inhouse would be difficult. Case B considered the “contingency” of bringing back the property operations in house. Case D devoted some time to considering this risk and similarly considered the difficulty of transferring outsourced operations back inhouse.

Financial Risk (financial loss to organisation due to outsourcing arrangement)

This was the most prominent risk considered by the five organisations in assessing the risk of outsourcing to the organisation.

Latent Cost Risk (costs not identified at the time the outsourcing arrangement entered into)

Cases A and C did not consider latent cost risk as a risk of outsourcing corporate real estate functions. The three successful organisations Case B, Case D and Case E considered the likelihood of latent costs. Common to these three organisations was the possibility for additional expenditure on systems in the future to interface with the supplier systems.

Business Risk (changing business environment adversely affecting positive outsourcing outcome)

Case A did not consider business risk in terms of changing business conditions. Similarly Case B and Case C did not consider changing business environment in its risk assessment. Cases D and E focused on business risk in any outsourcing arrangement in some detail. Case E considered its expansion plans and Case D considered that it was one of Melbourne's fastest growing municipalities and assessed the role of outsourcing and its risks in this scenario.

The successful case studies considered outsourcing risk in more detail and adopted more qualitative and quantitative techniques to assess possible outsourcing risks. The unsuccessful case studies did not consider risks in as much detail or otherwise adopted less qualitative and/or quantitative techniques to assessing potential outsourcing risks.

Beyond the consideration of risk, phase 1 of the outsourcing framework requires that organisation involved in corporate real estate outsourcing consider and perform distinct processes and actions. These are outlined in turn.

5.4.2 Outsource organisational operational not strategic functions

The framework requires that the organisation conducts a review and analysis to ascertain what is an operational function and able to be outsourced versus what is strategic function and required to be maintained inhouse. The tasks to achieve to resolve this entail:

Assessing materiality and importance of the function and service to strategic direction of the organisation

Case A and Case C did not assess materiality of the functions to be outsourced. Corporate real estate functions were not deemed by these organisations to be core and strategic. Case B performed a competency assessment of its core skills in determining materiality of real estate functions to its core business (Doc B-2, Doc B-3). Int B-2 stated that the review did not deem the real estate functions as material. Case D performed a social impact analysis on effect of outsourcing of corporate real estate to its ratepayers (Doc D-2, Doc D-4). In addition, Case D's materiality review of business functions in Doc D-3 did not deem property and real estate functions as a core strategic function. Case E assessed each of functions being outsourced on their material effect on revenue. Int E-1 confirmed that the review conducted in Doc E-3 and Doc E-4 did not deem real estate functions and expertise as core competency or skill deemed to be strategic to the organisation.

Utilising appropriate quantitative and qualitative techniques to ascertain materiality of real estate function

Case A and Case C did not perform any assessment of materiality of real estate functions to the organisation. Case B completed a spreadsheet analysis of the cost/benefit of keeping real estate operations inhouse and the importance of the function to the organisation (Doc B-3). Case D completed a variety of quantitative and qualitative analysis also using excel based spread sheets (Doc D-2, Doc D-4). Each real estate function was given a score as to its core competency and strategic importance. (Doc D-3). Case E forwarded a questionnaire to its business units and retail store franchisees to ascertain their views on property operations being outsourced and the importance to them of keeping the function inhouse. The responses were collated and assessed in Doc E-3 as to importance of real estate operations remaining inhouse to business units and franchisees.

Inhibitors

For the successful cases there were no inhibitors to this task of the framework. This was not the case for the unsuccessful cases where the senior management direction was that real estate functions were non core and strategic. Int A -1 confirmed that certain staff members held strong views on what constituted operational and strategic functions, for example large lease and sale transactions were considered strategic. Int C-1 confirmed that for Case C the major retail business unit wanted to keep control of site lease negotiations and did not care whether the function was resource or not. Therefore for Case A and Case C, personal agendas dictated whether the function was operational or strategic. The inability for Cases A and C to deal with inhibitors with this task affected outsourcing outcome.

Deliverables

Cases B, D and E had a process to decide whether the function to be outsourced was operational or strategic. The outcome for the successful cases was a clear delineation of what functions constituted strategic versus what functions were considered operational. Cases A and C had internal inhibitors that did not distinguish clearly what property functions were operational or strategic.

5.4.3 Setting clear business objectives and drivers for outsourcing

The framework provides that setting clear business objectives and drivers is important in the outsourcing process.

Define business objectives and aims desired from a broader organisation viewpoint

Cases B, D and E clearly defined business objectives and aims from a broader organisation viewpoint. Int B-2 stated that all objectives were assessed from an “organisational viewpoint” and that the goals of the organisation were considered from the outset. Case D in Doc D-3 ranked each of the objectives and aims it desired in outsourcing corporate real estate. Case E defined in Doc E-2 the broad business objectives and aims in outsourcing.

The unsuccessful cases appeared to not consider broader organisational goals and aims. Case A in Doc A-2 and Case C in Doc C-3 limited their business objectives and aims from the viewpoint of their respective property divisions. In both cases there was no consideration of the broader organisation viewpoint.

Define drivers for outsourcing decision

For cases A and C, the decision to outsource was heavily driven by its senior management. Int A-1 stated that outsourcing was “pushed from the executive management”. Similarly Int C-2 commented that the expectation of general outsourcing was that “outsourcing was the only way to go”. The successful cases appeared to have defined drivers for the outsourcing decision. Int B-2 confirmed that the drivers for Case B were to assist it grow its retail network. Int E-1 stated that Case E was driven in the outsourcing decision by the expected growth in its franchise and corporate store network. Int E-1 believed that “outsourcing would assist the organisation expand its property operations to handle this growth”. This was also documented in Doc E-2. Case D anticipated that outsourcing its real estate operations would assist its service delivery to its ratepayers by expanding the range of property services it could deliver (Int D-2, Doc D-3).

Consider the needs of all stakeholders by obtaining input from all stakeholders to derive and verify business objectives and drivers

The unsuccessful cases either did not consult or limited its consultation of its stakeholders. Int A-2 stated that for Case A apart from some minor discussion there was no consultation with its retail network or with other business units on business objectives and aims in respect to outsourcing. Int A-1 stressed that the corporate real estate division was “insular” in its attitude to discussing outsourcing with other business units. Int C-1 confirmed similarly that for Case C there was no broader consideration of the needs of its broader stakeholders.

The successful cases engaged in broad stakeholder consultation to verify business objectives, drivers and aims of outsourcing. Case B engaged its business units in discussion of outsourcing aims and objectives (Int B-1, Doc B-3). Case D has a

mandatory input from all affected stakeholders into any outsourcing decision according to Int D-2. Case E had meetings with affected business units, some suppliers and franchisees in discussing outsourcing objectives (Int E-2, Doc E-2). Similarly, Int E-1 circulated a paper to Case E business units on the proposed objectives of outsourcing real estate and invited comment (Doc E-3).

Consider third party arrangements already in place for conflicts

Case A and C did not consider third party arrangements in place. The successful cases considered third party arrangements already in place for conflicts. Int B-2 confirmed that for Case B a number of existing agreements were perused by its lawyers to ascertain whether outsourcing of real estate would breach the arrangement. Similarly for Case D, Int D-3 listed a number of existing contracts that were relevant to the outsourcing of real estate and whether there were any penalties for termination. Int E-2 outlined that a review was done on existing supplier agreements that needed to be taken into account and the consensus was that no agreement would prevent the outsourcing of real estate operations.

Prepare a business objectives matrix specifying broader organisational versus outsourcing objectives to highlight consistencies and divergences between broader organisational and outsourcing objectives.

Case A and C did not prepare a business objectives matrix or anything that could be construed as a business objectives matrix. The successful cases prepared various forms of analysis that were in the form of a matrix or similar analysis approach. Int B-1 stated that business objectives were assessed from a broad organisational viewpoint. For Case B, Doc B-3 lists these business objectives and comments on effect to broader organisational objectives. Int D-2 confirmed that the needs of its ratepayers and business units were assessed in Doc D-3 against the property division objectives for outsourcing of real estate functions. Int E-1 pointed to Doc E-3 as evidence that business objectives were assessed from an organisational viewpoint and each objective listed with potential “problems and issues” marked against the objective. He mentioned that the fact that franchise stores could no longer initiate their own repairs and maintenance as one area that was seen as problematic in the analysis of objectives and inconsistencies of outsourcing and broader organisational objectives.

Assess and deal with conflicts between stakeholders early on

No detected conflicts between stakeholders in the successful cases B and D. Int E-2 confirmed that several franchise managers appeared uncooperative to providing information. Int E-2 confirmed that these managers were “educated about the outsourcing process” and certain “misconceptions that they had” dealt with. The

unsuccessful cases did not deal with conflicts well. Cases A and C appeared to have a number of conflicts in the early phase of the outsourcing process. These conflicts do not appear to have been dealt with. Int A-2 stated that within the property department there were different opinions on whether outsourcing should go ahead. He mentioned the “in house” lobby was strong and “would not go away”. Int C-1 confirmed that some of the larger retail business units did not want to give up control of real estate functions that they managed. In both cases no strategy to deal with these conflicts was evident.

Assess the validity of the drivers for outsourcing decision to broader organisational objectives

Cases A and C did not do this as the decision to outsource was driven largely by its senior management. The successful cases articulated and assessed the validity of drivers for outsourcing. For case E, outsourcing was driven by expanding its business network (Doc E-3). Int E-3 believed outsourcing of real estate would assist the organisation grow its network of retail sites. Similarly Cases B and D were driven by the prospect of service improvement from outsourcing and believed that outsourcing real estate functions would derive greater efficiencies for all business units and stakeholders (Int B-2, Doc B-3, Int D-1, Doc D-4).

Inhibitors

The unsuccessful cases appeared to have difficulty dealing with conflicts among its staff or its business units. The fact that for Cases A and C the decision to outsource had been made by senior management ensured that there was no real analysis of aims, objectives and drivers in making the outsourcing decision from a broader organisational viewpoint. This was not the case for the successful case studies who handled conflicts well.

Deliverables

Cases B, D and E had established by various processes firm and defined objectives for the outsourcing of corporate real estate functions. The decision to outsource was made by senior management in the unsuccessful cases and consideration of objectives, drivers and aims of outsourcing appeared to a secondary matter for cases A and C.

5.4.4 Senior management buy in from the outset of the outsourcing process

Senior management buy in to the outsourcing process is considered important. There are certain tasks that need to be performed to achieve this. These tasks were performed for each case as follows:

Develop senior management buy in to the total outsourcing phased approach from the outset by ensuring that senior management sponsors or champions the outsourcing process from the outset

For all cases, the move to outsource corporate real estate received senior management support and encouragement. Case A (Int A-1, Doc A-3) and Case C (Int C-2, Doc C-2) received support from the respective executive management of each entity. Case B (Int B-2, Doc B-2) and Case E (Int E-1, Doc E-3) respectively received Managing Director support. Case D received support from the Chief Executive Officer and Divisional Director for outsourcing of real estate.

Steer decision making in terms of organisational objectives not personal objectives of any particular organisational segment

Despite having senior management approval and support to the real estate outsourcing process, Case A (Int A-2) and Case C (Int C-3) did not appear to consider only organisational objectives. Personal agendas were seen from the outset and appeared unable to be contained. Int A-1 confirmed that the property division had a “number of personal agendas” that worked against an orderly outsourcing process. Similarly for Case C, Int C-2 outlined that certain business units were consistently and fervently pushing their own agenda. The successful cases appeared to focus less on personal agendas. Case B (Int B-2), Case D (Int D-1) and Case E (Int E-2) focused on organisational objectives without any apparent personal objective agenda coming to the surface.

Utilise senior management assistance early in the outsourcing process to resolve bottlenecks, impasses and differences as identified

The unsuccessful cases did not deal well with bottlenecks, impasses and differences. Int A-1 confirmed that senior management did little to assist the “bottlenecks and distractions” created by some of the in house staff involved with the Case A outsourcing arrangement. He mentioned despite the move to outsourcing, several of the property staff continued to lobby senior management to change the decision or alternatively allow an in house bid as part of the process. Similarly in Case C, Int C-2 highlighted that senior management appeared unwilling or unable to bring to a difficult business unit to participate in a cooperative manner. There appeared no such problems for the other case study organisations in this task.

Obtain senior management assistance to procure resources necessary to outsourcing process

All case study organisations indicated that they had the necessary resources to engage in the outsourcing process Case A (Int A-2), Case B (Int B-1), Case C (Int C-2), Case D

(Int D-2, Doc D-3), Case E (Int E-2). In the case of Case B, Int B-1 utilised the assistance of its Managing Director to gain some information for some its franchise network.

Ensure there is senior manager support for the make up of appointed project steering team and project team leader

Senior management support for the make up of the project team and project team leader was forthcoming in all cases. Case A (Doc A-3), Case B (Doc B-2), Case C (Doc C-2) and Case D (Doc D-3) appointed the project team leader from its respective Property Division available personnel. Case E with the support of its senior management appointed a project team leader from a specialist outsourcing consultant firm (Int E-1, Doc E-2). The project steering team to commence the outsourcing process was appointed from property division staff in Case A (Doc A-3), Case B (Doc B-2) and Case C (Doc C-2). The project team was comprised of members from different business units in the case of Case D (Int D-1, Doc D-2) and Case E (Int E-2, Doc E-3). Senior management in case D and E approved the secondment of non Property Division personnel to the project steering team (Int D-2, Int E-2).

Limit the involvement of senior management to not conflict with the day to day workings of the project steering team

There is no evidence of any interference by senior management for any of the cases into the working of the project steering team (Int A-1, Int B-2, Int C-1, Int D-1, Int E-1).

Identify affected parties and internal/external stakeholders likely to be affected by the outsourcing process

Case D in Doc D-3 and Case E in Doc E-2 conducted a major review of all stakeholders that may be affected by the decision to outsource. Int B-1 confirmed for case B that identification of affected stakeholders was limited to only internal stakeholders. There was no evidence from discussions with Int A-1 that Case A conducted any review as to which non Property Division parties would be affected by the decision to outsource. Similarly, Int C-2 confirmed that the property division was “focused on property division issues” in exploring outsourcing.

Require input from all affected parties and stakeholders

According to Int A-2, Case A had virtually no input from all affected parties and stakeholders. Case C did not actively seek input from affected parties and stakeholders according to Int C-2. The successful cases on the other hand had input from affected parties and stakeholders. Case B (Int B-1) focused on specific business units that it considered important and left out others. Case D and Case E had the broadest consultative processes and obtained input from external stakeholders. Int D-1

confirmed an extensive consultative process with affected business units and Int E-2 similarly confirmed a detailed engagement process with a variety of external stakeholders.

Encourage active participation of major stakeholders on the project steering team preferably or as minimum insist on a consultative role

Int A-1 confirmed that Case A did not encourage participation of major stakeholders. Similarly according to Int C-3 Case C did not have active participation of major stakeholders into the project steering team deliberations and/or meetings. Case B according to Int B-2 allowed limited participation for major stakeholders. For Case D (Int D-1, Doc -2) and Case E (Int E-1, Doc E-3) included stakeholder representatives on the project steering committee and encouraged major stakeholders both internal and external to be kept informed.

Adopt a process of inclusion not exclusion of affected key stakeholders

According to Int D-2 for case D and Int E-2 for case E, these successful cases met this task and encouraged inclusion of key stakeholders. Int B-1 stated that for Case B while not including key stakeholders on the project steering team, the project team did report to business unit heads on progress on a regular basis. Int C-2 confirmed that for Case C only those business units it felt was relevant to the property outsourcing process were informed. However, Int C-2 stressed that the amount of engagement with business units was “minimal” and in hindsight “largely inadequate”. Int A-1 stated that Case A did not actively include affected key stakeholders in the outsourcing process. The unsuccessful cases unlike the successful cases did not have a process of inclusion of affected key stakeholders into the outsourcing process and/or project steering team.

Inhibitors

For all case studies, senior manager support was obtained to the outsourcing process and the requirement to properly outsource the project steering team. The ability to deal with conflicts and engage with broad business units was not considered or otherwise performed satisfactorily by the unsuccessful cases.

Deliverables

Senior management buy in to the outsourcing process was obtained for all the case study organisations. All project steering teams established in each of the case studies were properly resourced and led by a project team leader. Broad stakeholder engagement was evident for all the successful cases. However stakeholder engagement was not present in the unsuccessful cases.

5.4.5 Stakeholder buy in from the outset – utilise senior management assistance as required to meet stakeholder resistance

Stakeholder engagement or buy in to the outsourcing process is essential. The framework defines stakeholder in broad terms and includes internal as well as external parties. The tasks required by the framework to enhance stakeholder buy in are outlined below:

Identifying those business units or persons likely to be affected by any decision to outsource

The unsuccessful cases did not identify affected business units or persons other than their respective property division. Int C-1 mentioned that Case C did not consider external stakeholders at all or business units in detail other than the property division in its decision to outsource corporate real estate functions. Int A-1 commented that Case A did not identify business units or persons outside of the Property Division likely to be affected by any decision to outsource. The successful cases considered a variety of stakeholders and persons affected by the outsourcing decision. Int D-2 stated that for Case D affected stakeholders and persons were identified “very early” in the process. These stakeholders and persons were listed in Doc D-2 and Doc D-3. Similarly Case B in Doc B-2 and Case E in Doc E-3 considered affected stakeholders both internal and external.

Ensuring that affected business units are represented on the project outsourcing steering committee set up for the purposes of managing the outsourcing process or as a minimum in a consultative role

Case D (Int D-2, Doc D-3) and Case E (Int E-3, Doc E-4) were the only cases that had representatives of affected business units on the project steering committee. Int B-2 confirmed that key business unit representatives were encouraged to attend presentations to senior management throughout the outsourcing process. The unsuccessful cases had no representatives of affected business units on the project outsourcing steering committee.

Address stakeholder grievances, disputes, resistance and adverse actions to the outsourcing process

The unsuccessful cases had difficulty in dealing with stakeholder grievances, disputes, resistance and adverse actions. Int C-1 confirmed that Case C attempted to appease the grievances of its business units without much success. The internal disagreement within the property division has been highlighted previously for Case A. However, Int A-1 confirmed that given stakeholders were not part of the process any grievance or resistance was non-existent. The issue of stakeholder grievances and disputes was

better handled by the successful cases. Int E-2 mentioned that some of the franchise store owners raised some general concerns but not necessarily against the concept of outsourcing. He mentioned that these grievances were addressed without “much fuss”. There appears to be no stakeholder grievance to the outsourcing process for the other case B and D (Int B-1, Int D-1).

Utilise senior management to address stakeholder grievances and disputes

Int E-1 confirmed that its senior management was utilised to assist it with engaging its franchisee store owners to the outsourcing process. Int B-2 stated that the initial circulars to business units on the outsourcing process were forwarded on the letterhead of the Managing Director to gain support from stakeholders. Int D-1 mentioned that the Divisional Directors of the other business units were brought onside early in the process. The unsuccessful cases did not utilise senior management to address stakeholder grievances and disputes. There appears for case C as outlined by Int C-1 to be no senior manager support or assistance to address stakeholder disputes. Similarly, Int A-2 lamented that senior management support would have “worked well to address problem departments” especially early on in the outsourcing process.

Inhibitors

Cases A and C were unable to deal with its stakeholders effectively especially in terms of dealing with disputes and grievances. Senior management support was unable or unwilling to assist deal with stakeholder grievances in the early phase of the outsourcing process for cases A and C. Senior management support was strong and effective in the successful cases.

Deliverables

Stakeholder support was obtained to the outsourcing process for cases B, D and E. Stakeholder support was not obtained for the unsuccessful cases.

5.4.6 Establish the project outsourcing team and accountabilities

An outsourcing project team lead by a project team leader is set up at the outset to commence and manage the outsourcing process. There are number of tasks to ensure that the establishment of the project team is effective.

Define the charter and scope that the project team will operate under

The charter and scope for the project team was defined in each of the case studies (Doc A-2, Doc B-3, Doc C-2, Doc D-3, Doc E-2).

Ensure that the team is a multidisciplinary team comprising representatives of each business segment affected by the outsourcing decision

Only cases D and E had a multidisciplinary project team made up of members from various business units and not just the property division (Int D-1, Doc D-2, Int E-3, Doc E-4). For case B, Int B-1 confirmed that while business units were not formally on the project team, a representative of key business units was attached to the team as a consultant to the project. The unsuccessful cases did not have non property division representatives on the project team. For case A, Int A-1 stated that the project team for Case A contained only property division staff. Similarly Int C-1 confirmed the same for Case C.

Ensure that the establishment of the project team has the approval or sanction of a project champion (most likely a member of senior management)

All project teams had the support of senior management. A “project champion” or sponsor was evident for all the case studies (Int A-1, Int B-2, Int C-1, Int D-1, Int E-2)

Appoint an appropriate project team leader with appropriate skills

With the exception of Case E, all project team leaders were internally appointed from within the organisation (Doc A-2, Doc B-3, Doc C-2, Doc D-3, Doc E-4). For case E, Int E-1 highlighted that a person with the appropriate skill set for a project team leader was not available in house and the project team leader was appointed from a specialist outsourcing consulting firm. The question of skills of the project team leader is considered in detail in section 5.4.7.

Allocate sufficient resources to the project team

All project teams were given sufficient resources (Int A-1, Doc A-3, Int B-1, Doc B-3, Int C-1, Int D-2, Doc D-2, Doc D-3, Int E-1).

Sign off by project team of cost budget, accountabilities and timelines and ensure senior management and key stakeholder support

The successful cases met this requirement in full (Int B-2, Doc B-2, Int PD-1, Doc D-3, Int E-1, Doc E-4). Int A-3 confirmed sign off of cost budget and senior management support to budget and project timelines for Case A. The unsuccessful cases did not have or otherwise seek key stakeholder support. Int C-2 stated that cost budget, accountabilities and project timelines were signed off by senior management. Similar to case A, there was no stakeholder support for case C.

Assess and clearly define the role of specialised consultants and their ability to assist

Int E-1 confirmed that case E considered and evaluated the use of external consultants specialising in outsourcing and came to the conclusion that an external project leader

specialising in outsourcing would assist the process. According to Int D-2, Case D project team leader had a background in outsourcing and contract management and believed it did not need an external consultant. Cases A, B and C did not consider the use of specialised outsourcing consultants as the required expertise was deemed to be available in house (Int A-1, Int B-2, Int C-2).

Ensure specialist consultants complement not supplement role of project team

Case E was the only case where an external consultant was used and the consultant was the project leader (Int E-1, Doc E-3). The other cases did not have an external or specialist consultant.

Inhibitors

The experience and aptitude of the project leader can affect the success or otherwise of the outsourcing project. With the exception of Case E, all case studies deemed that they had appropriate internal expertise to appoint a project team leader. Case E mitigated its inexperience by employing an external consultant to perform the role of project team leader of the outsourcing project.

Deliverables

A project team led by a suitably qualified project team leader was established in all cases.

5.4.7 Careful consideration in the selection of the project team leader

Because of the importance of the project leader to the outsourcing process, the framework considers the role and attributes required in a suitable outsourcing project leader. The framework outlines a list of attributes, skills and aptitudes required in a project team leader.

While all cases appeared to have suitable project team leaders, the unsuccessful case team leaders appeared unwilling or unable to deal with stakeholder disputes or deal with difficult persons. Int A-1 believed that the project leader of the Case A team was skilled in property operations and management but lacked some of the other skills required in a team leader such as dispute resolution. According to Int A-1, the project team leader was “unable to change set rigid mindsets” of some of the inhouse Property Division staff. Case C’s project leader in the opinion of Int C-2 had a good understanding of the organisation and outsourced functions but could not impact on the obstinate position on outsourcing of some of the business units.

The successful cases’ team leaders appeared to have a broader range of skills and aptitude. Case B’s project leader was formerly with a management consultant firm and had good negotiation, planning, process management and selling skills according to Int

B-2. Int D-1 stated that Case D's project leader had headed a variety of outsourcing projects in other areas of the council's operations and had strong project management and change management skills. The case E project team leader was an outsider to the organisation who had participated with a different organisation in a major real estate outsourcing contract and had excellent project management skills according to Int E-2. Considering the evidence from the case studies, it appears that the successful cases' team leaders had a broader range of skills and aptitudes than the unsuccessful case team leaders.

Inhibitors

Finding a project team leader with the required skills is an inhibitor to outsourcing success. For Case E, it was important to source a project leader externally because a suitable candidate was not available internally. The other cases sourced their project leader internally and accordingly were limited by the quality of their internal incumbents for the position. However, the unsuccessful cases appeared to have project team leaders unable to deal with stakeholder grievances and issues.

Deliverables

A project team leader that is suitably qualified was appointed for all cases to lead the outsourcing project team. The successful cases appeared to have the stronger project leaders based on experience and key attributes and skills required in a project leader of an outsourcing team.

5.4.8 Establish the business case (especially derivation of base line cost and risk analysis of the proposed outsourcing arrangement)

The project team will be required to prepare a business case to initially review the case for outsourcing versus maintaining the status quo. An important component of the business case will be the compilation of base line costs and risk analysis. The framework requires a number of tasks for a proper business case and risk analysis to be performed.

Relevant base line costs and risk analysis

The successful cases had demonstrated base line cost and risk analysis. The unsuccessful cases were not as clear cut. Cases B, D and E derived a true base line cost of their current property costs and risk analysis in this base line cost being maintained over various projected periods (Int B-2, Doc B-4, Int D-3, Doc D-2, Doc D-4, Int E-2, Doc E-2) in preparation and compilation of the business case. It was evident for the successful cases that base line costs were itemised in detail and included all property costs including transfers and inter company charges for property services.

Accordingly, a complete picture of the base line cost and expected movements and risk assessment was seen for the successful cases.

For case A, Int A-1 confirmed that the base line cost was taken from the property department accounts and did not factor in some of the ancillary property costs incurred that was not resident in these accounts. Risk analysis was limited for Case A according to Int A-1. Similarly for case C, Int C-1 confirmed that no further analysis was performed on the costs of operating in house property operations as compiled by the accounting division. There appeared according to Int C-1 a limited risk analysis in the outsourcing business case as the decision to outsource had already been made by senior management. According to Int C-1, base line cost analysis was seen as “largely inconsequential” to the outsourcing process as the decision to outsourcing had already been made.

Derivation of base line costs taking into account total costs and life cycle of the various options including outsourcing. This will in turn consider:

- Direct and indirect costs of outsourcing versus maintaining the functions inhouse
- Common analysis parameters as to discount rates and interest rates to ensure all options fairly and objectively analysed

The successful cases performed a total property cost analysis of direct and indirect cost of outsourcing (Int B-2, Int B-3, Int D-2, Int D-4, Doc D-5, Int E-3, Doc E-5). Only Case E performed a present value analysis for the option of maintaining inhouse operations versus outsourcing the property operations to an external supplier. Cases B and D conducted a cost projection exercise for the outsource option over a projected time period of 3 and 5 years respectively including the option of maintaining services inhouse (Int B-3, Doc B- 4, Int D-4, Doc D-5). The unsuccessful cases did not perform the base line analysis required by the framework.

Independent verification of business case premises and base line costs (utilise services of internal or external auditor)

The unsuccessful cases did not seek independent verification of the business case premises and/or base line costs. For case A, Int A-1 confirmed that there was no external or independent review of base line costs or the business case premises. Similarly, Int C-2 remarked that the case C business case premises and base line parameters was not subject to independent audit review. This was largely due to the belief according to him that the project was “owned by the property division” and that there was no need to involve others.

The successful cases had varying levels of independent audit review and verification of business case premises and base line costs. Cases B and E required its internal audit team to review the business case premises and in particular the base line costs and projections (Int B-2, Doc B-3, Int E-2, Doc E-5). For case D, Int D-1 stated that the council's external auditors reviewed and commented on the business case parameters, base line costs and projections as required by their policies and guidelines on material and financial business cases pertaining to major outsourcing contracts (Doc D-4).

Risks by category e.g monetary, reputation, service delivery etc

The successful cases conducted an itemised risk analysis assessing a number of risks that may apply to outsourcing real estate operations (Int B-3, Int D-4, Doc D-4, Doc D-5 and Int D-3, Doc E-4). This was not the case for the unsuccessful cases. For cases A and C respectively, Int A-1 and Int C-2 confirmed for their respective case studies that risk assessment was minimal given the direction of senior management to outsource real estate operations previously conducted in house.

Proper risk analysis adopting appropriate parameters and methodology including statistical/discounted cash flow analysis where applicable

The unsuccessful cases did not conduct a proper risk analysis using a variety of qualitative and quantitative techniques. Int A-1 mentioned that the focus in case A was to outline cost savings to be made by outsourcing without any consideration of the risk of these savings being achieved. Int C-2 indicated that risk assessment could have been improved for case C and more "quantitative approaches should have been adopted" according to Int C-2.

The successful cases utilised a number of risk analysis techniques. Int D-2 referred to Doc D-3 and Doc D-5 for evidence of case D utilising discounted cash flow analysis to assess risk. Int B-1 highlighted in Doc B-4 that case B employed a number of analysis techniques assessing payback time of the cost of outsourcing as a means of assessing risk. Case E conducted a return on investment taking the cost of outsourcing and projected return from outsourcing. The return on investment derived was compared to the organisational hurdle rate for investment (Int E-1, Doc E-2, Doc E-4).

A risk analysis in the form of a risk evaluation template outlining what risk(s)? when the risk(s) could occur?, what is the risk(s) effect on the broader business?

- The severity of risk identified and offer suggested mitigation strategies for each risk identified
- Consider balanced scorecard analysis (analysis as to whether function would be done inhouse or outsourced if organisation was about to commence trading) to promote open thinking as to risk assessment

The unsuccessful cases did not compile a risk evaluation template nor conduct proper risk and mitigation strategy analysis. The successful cases performed a variety of risk and risk mitigation analysis along the lines proposed in the framework. For case B, Int B-1 confirmed that a balance scorecard analysis was used for case B to assess risk on the broader business. Cases D and E conducted detailed risk assessment as part of the business case adopting some form of risk evaluation matrix or analysis template (Int D-3, Doc D-4, Doc D-5, Int D-4, Int E-2, Doc E-5). A risk evaluation template of various formats was constructed in each of the successful cases where an identified risk was highlighted in importance and its impact on the organisation and stakeholders noted in the particular case template. Case B paid significant attention to the cost and risk of bringing the services back inhouse (Int B-4).

Inhibitors

For case A and C as the decision to outsource was effectively imposed by senior management and accordingly there was little risk assessment using a variety of techniques. However the risks of outsourcing and consideration of mitigation strategies are inhibitors that need to be dealt with. The successful cases addressed these inhibitors. Cases B, D and E conducted detail and varied risk analysis as part of deriving their respective business case.

Deliverables

A business case that details baseline costs and assesses risks of outsourcing was established for the successful cases. The outcome of the business case baseline cost and risk review process was that for cases B, D and E, the decision was made to proceed further with outsourcing. The unsuccessful cases A and C were governed by the decision by senior management to proceed with outsourcing as a “fait accompli”. However, the unsuccessful cases did not consider risks and risk mitigation strategies as required by the framework.

5.4.9 Articulate your service standards and manage stakeholder expectations during the initial phases of the outsourcing process

The business case and initial review of the project team will be required to address service standard expectations in any outsourcing arrangement. The anticipated services standards and benefits from outsourcing will normally be compared to the existing situation and inhouse service standards. The derivation of service standard expectations from outsourcing according to the framework requires the following tasks to be performed.

The nature, scope and outline of service requirements and performance standards expected in outsourcing contract

All cases articulated in their respective business case and outsourcing review documentation the nature, scope and outline of service requirements required for the outsourcing contract (Doc A-4, Doc B-3, Doc C-3, Doc D-4, Doc E-3).

Stakeholders and seek stakeholder input to business case as required or to verify information as to service standards

The unsuccessful cases did not seek stakeholder input into service standards. Int A-1 confirmed that case A did not seek stakeholder input into the setting of service standards. Case C sought input only from a limited number of stakeholders into service standards according to Int C-2.

The successful cases had much broader engagement from stakeholders into the setting of service and performance standards. For case B, the project team received some input from affected stakeholders as to desired service standards (Int B-1, Doc B-4). In case D (Int D-1, Doc D-3) and in case E (Int E-2, Doc E-4) sought stakeholder input and approval into service and performance standards. Case D in Doc D-5 discussed with stakeholders how the call centre would work and the timing expected as to response time for various routine maintenance matters.

Prioritise expectations on the basis of organisational needs not stakeholders wants or 'nice to haves'

The unsuccessful cases were less precise in articulating outsourcing expectations on the basis of organisational needs. Int A-5 mentioned for case A that its service and performance needs were expressed in general terms and purely from a property division viewpoint. He mentioned that the policy of open plan work station fitout was largely a property division objective and the ratio of 1 person for every 10 square metres of space was not suitable in many instances to enhance organisational efficiency but had been maintained as an objective and outsourcing expectation for reasons of minimising capital property costs. Similarly for case C, Int C-6 suggested that the expectations of service standards were limited to what the property division thought was the standard based on its current practice and not what the organisation would necessarily need or want in the future.

The successful cases had broader organisational and stakeholder considerations. For case B, Int B-1 confirmed that service expectations were derived after discussion with affected stakeholders and consideration of broader organisational goals. For case D as outlined in Doc- D4, a review was conducted of what was considered outsourcing best practice and these service performance and standards were accepted as the desired

standard. In case E, Int E-2 confirmed that the stakeholders were presented details of expected service standards that assisted in meeting organisation goals of retail site growth and not necessarily on what the franchisees desired in an outsourcing arrangement.

Manage expectations of senior management and stakeholders against unrealistic expectations of outsourcing outcomes so business case does not misrepresent outsourcing outcomes

All cases with the exception of cases A and C managed the expectations of senior management and stakeholders in respect to outsourcing outcome. Int A-2 stated that expectations of outsourcing from the viewpoint of senior management and stakeholders in case A were “poorly managed”. Int C-1 remarked that expectation management of outsourcing outcomes was always going to be compromised given the manner in which outsourcing was “forced upon” the organisation. The successful cases appear to have handled expectations of senior management and stakeholders satisfactorily (Int B-1, Int D-2, Int E-1).

Articulate and explain achievable service standards versus expectations to stakeholders and senior management

All cases except cases A and C accomplished this. At case C according to Int-1, internal stakeholders espoused the view that outsourcing could only be justified if performance standards were “increased significantly from inhouse performance”. He saw many of the expectations as being unrealistic and unable to be managed at the time. Similarly, Int C-2 stated that the case C project team could not convince one of its business units that the business unit’s desired way of working was impractical for purposes of the outsourcing contract. Int A-1 mentioned it was a “struggle” to convince many of the stakeholders as to standards expected from outsourcing given the “entrenched” views either favourable or otherwise as to what outsourcing could achieve.

The successful cases articulated achievable services standards directly, in plain English and addressed where expectations were unrealistic (Int B-1, Doc B-5, Int D-2, Doc – D4, Int E-2, Doc E-6).

Inhibitors

Expectation management and addressing false expectations is important if outsourcing is to be properly positioned. With the exception of cases A and C, the other cases managed to maintain and explain proper perceptions from stakeholders on service standards expected from the outsourcing contract. While the unsuccessful cases had to deal with some rigid mindsets, the reality was that the project team was unable to

manage unrealistic expectations of service standards from senior management and stakeholders.

Deliverables

For the successful cases, the business case and review of options carefully considered service standards and positioned the business case properly and mindset of stakeholders so that achievable service standards were understood and accepted. This was not the case for the unsuccessful cases.

5.4.10 Articulate clearly information gaps, problems and limitations of implementing an outsourcing arrangement

From a risk viewpoint any information gaps, problems and limitations that may be incurred need to be considered as part of the business case. If the organisation cannot supply to prospective suppliers a complete information package on the functions and services to be outsourced then this information gap could adversely affect the performance of later phases of the outsourcing process. Therefore considerations of information gaps, problems and limitations that may occur from outsourcing need to be considered in the business case. Specifically this requires the project team as part of compiling the business case to:

Consider information gaps, organisational problems and limitations

The successful cases conducted a detailed review of organisational strengths and weaknesses and how this would impact on the performance of their respective outsourcing contract and providing prospective suppliers the required information for them to tender (Int D-3, Doc D-5, Int D-4, Doc D-6, Int D-5, Doc D-6). In particular, cases B and E identified information gaps from their external stakeholders and attempted to rectify the information gaps (Int B-1, Int E-2). The unsuccessful cases did not address information gaps, organisational problems and limitations that would be of concern to prospective suppliers. Notwithstanding according to Int A-1 that case A had severe information gaps and other difficulties, the review conducted at the outset failed to consider these limitations in detail. Int A-2 commented that the reality was that the information was “never going to be available” and that many within the project team thought that information shortfall was “the supplier’s problem”. Similarly, for case C according to Int C-2, the case C project team did not review in detail information gaps, organisational problems and limitations. According to Int C-2, the decision to outsource was already made and any review or business case was more of a “support” document. He thought that the expectation was that there was “sufficient information” for a supplier to tender.

Assess severity of information gaps, problems and limitations

The unsuccessful cases did not assess the severity of information gaps, problems and limitations. Int A-1 stated that there was no consideration of information gaps, notwithstanding that the internal system had a number of problems. Int C-1 mentioned that the system shortfalls on the internal property management system would require commenting but lack of resources and expectation that outsourcing would rectify the problem meant this was not given any consideration in the business case.

It appeared that the successful cases addressed severity of information gaps, problems and limitations in more detail. Case D in Doc D-4 assessed the severity of its problems and limitations in outsourcing corporate real estate as part of its assessment of strengths and weaknesses. Int D-2 mentioned that a number of system limitations were identified especially in terms of accuracy of property data resident on its system that required rectification. Int B-2 remarked that a document review identified that the whereabouts of a number of leases and titles was unknown and accordingly action taken to obtain them. Int E-1 confirmed that a review identified that leasehold data for their franchise stores was not updated on a regular basis and action taken to update the data.

Incorporate information and findings on severity of information gaps, limitations as part of the business case risk analysis

In their respective business case, cases B, D and E highlighted the review of outsourcing risk, assessed the problems and outlined the action taken to rectify (Int B-3, Doc B-4, Doc D-3, Doc D-5, Int E-3, Doc E-6). Discussions with Int A-2 and Int C-1 indicated no such review in any detail for cases A and C in their respective business cases.

Inhibitors

Not all information gaps, problems and limitations of outsourcing may be known at the time of compilation of the business case. This creates uncertainty in the outsourcing process. A decision to proceed to further consider outsourcing may be made with incomplete or inaccurate information. In order of comprehensiveness the successful cases completed this task in line with what was expected in the framework. The unsuccessful cases did not conduct this review in any detail and did not address incomplete and/or inaccurate information and information gaps.

Deliverables

A business case was produced for the successful cases that considered risk, limitations, information gaps and potential problems of outsourcing. The business cases for the unsuccessful cases were more of review documents taking into account

that the desire of senior management was to outsource corporate real estate functions as a “fail accompli”. Accordingly, the business case for cases A and C did not address risk issues and consider information gaps as required by the framework.

5.4.11 Define a communication strategy tailored to meet the needs of all affected organisational and external stakeholders

The outsourcing process can be unsettling to staff and other stakeholders. A communication strategy prepared by the project team is required to instil confidence and understanding among affected organisational stakeholders. A suitable communication strategy can be achieved according to the framework by the following tasks:

Devise a formal communication strategy and policy for all stakeholders including senior management

Cases B, C and D established a formal written communication strategy that involved their respective property divisions, stakeholders and external parties (Int B-1, Doc B-6, Int C-1, Doc C-5, Int D-2, Doc -D5, Doc- D6). Cases A and E did not have a formal written communication strategy but had a defined communication process established for the purpose of communicating to affected internal stakeholders (Int A-2, Int E-1). In Case E its staff and franchisees were included in the communication strategy (Int E-1). Both case A and E had either work place agreements or contractual arrangements that outlined how the staff and/or stakeholders as relevant were to be kept informed as a result of outsourcing arrangements (Int A-1, Int E-1). According to Int E-1 the work place agreement had a “defined manner” on how to handle staff during the implementation of an outsourcing arrangement.

Focus on timely, consistent and accurate information and monitor if this is being achieved throughout the outsourcing process

Int A-1 confirmed a communication process that was timely and consistent with the requirements of the enterprise workplace agreement that dictated timelines in communicating to affected staff. For case B, all communication was monitored by the project team according to Int B-2. The initial communication to staff was vetted by senior management for case B prior to release (Doc B-7). Int C-2 confirmed a fortnightly communication circular was forwarded to affected staff on the progress of the outsourcing process. Business unit heads were briefed by Int C-3 on a regular basis. Int D-2 stated that a communications log was maintained up to the time the contract went live. The project team prepared all communications and Divisional heads were asked to comment on matters that related to business units before release (Doc D-7, Doc D-8). Int D-1 confirmed that all communication to franchisees was vetted by

the internal legal counsel assisting the project team. A regular update on timelines and actions was provided to affected staff in the case of case E (Doc E-8).

Decide on a suitable time, venue and method to communicate commencement of outsourcing process

Cases B, C and D announced the commencement of the outsourcing process at a face to face meeting (Doc B-7, Doc C-8, Doc D-6, Doc D-8). Int E-2 confirmed that for case E, staff members were initially advised by circular with a follow up face to face meeting to discuss the outsourcing process. Case A advised affected stakeholders by email of the start of the outsourcing process and the expected process (Doc A-7).

Utilise different communication modes and channels to cater for circumstances and organisational requirements

Cases D and E utilised a variety of methods including phone conferences, face to face, mail, fax and email (Doc D-6, Doc D-8, Doc E-7). According to Int B-1 and evidenced in Doc B-7 and Doc B-8, case B used a variety of communication modes including phone conferences, mail and email to communicate to staff and other stakeholders. Case A and C used predominantly email communication throughout the outsourcing process (Int A-2, Doc A-6, Int C-2, Doc C-7). Int A-2 considered email as the most effective mode of communication and provided evidence in case the organisation had to demonstrate compliance with its workplace agreement.

Focus on risk minimisation and minimise disruption of business operations

There was no evidence that the communication process added to risk or otherwise disrupted business operations for any of the cases. Face to face meetings and feedback sessions were held in different locations for cases B and E to cater for staff and other stakeholders not resident at the respective head office for each organisation (Int B-1, Int E-2). Case study D structured meetings to work within employee work schedules, particularly for the maintenance crews (Int D-2, Doc D-7). Cases A and C conducted fewer face to face meetings than the other organisations and provided when a face to face meeting was called sufficient notice to staff (Int A-1, Int C-1).

Understand the legal requirements in terms of communicating to affected employees on proposed outsourcing arrangements affecting them

Cases A and D had to deal with union and work place agreement requirements as to any outsourcing process that may impact on the employment of staff (Int A-2, Int D-2, Doc D-6). Cases B, C and E operated in less rigid circumstances and were not bound to the same degree by union or work place agreements. However cases B and E considered external stakeholder obligations in the communication process, especially

in respect to any franchise agreements or third party supplier arrangements in place (Doc B-6, Int C-2, Doc E-8).

Inhibitors

Communication is made difficult when there are employees and other stakeholders scattered over different states. With the exception of case D, all other cases had employees scattered over Australia. Accordingly email was the most convenient communication mode for most of the cases. Case D was fortunate that all employees and stakeholders were located in Melbourne. This allowed other forms of communication of a more personal nature. Cases B and E had most of their staff on the Eastern seaboard of Australia and phone conferences was utilised given the same time zone.

Deliverables

A structured communication strategy tailored to meet the needs of employees and affected stakeholders was employed in all cases. The method and mode of communication varied to meet the circumstances of the organisation. However, all cases had a communication strategy of some form or another and worked within their legal and/or business circumstances in communicating to their affected employees and stakeholders in respect to the outsourcing process.

5.4.12 Plan for and deal with human resource issues from the outset

The management of human issues during the outsourcing process is important to the ultimate success of the outsourcing process. The framework provides for a number of tasks to manage human resource issues:

Assess human resource implications, costs and issues as part of the business case addressing any material risks

Cases A, B, D and E considered the cost of redundancy of employees required to be terminated post outsourcing in their respective business case (Doc A-2, Doc B-3, Doc D-3, Doc E-2). Other risk issues such as business continuity due to loss of staff were discussed in the relevant business case for case B and D (Int B-1, Int D-1). Case A according to Int A-2 had “dealt with human resource issues as part of the initial review” that considered outsourcing. Case D had according to Int D-2 compiled a detailed human resource risk review in the business case and outlined options such as redundancy, transfer to supplier or redeployment for affected staff (Doc D-3). Case C considered requiring the supplier to take on all affected staff for a certain period as a risk mitigation strategy for human resource issues (Int C-1, Doc C-7).

Consider and address financial, legal and statutory obligations including reputation of the organisation in dealing with human resource issues

Cases A and D considered in detail the legal and statutory obligations related to human issues including the reputation of the organisation (Int A-2, Int D-1, Doc A-5, Doc D-8). Cases B, C and E also considered the human resource requirements pertaining to the outsourcing arrangement especially in particular to retrenchment costs or redeployment possibilities with the supplier (Int B-1, Int C-2, Int E-1). Int B-1 mentioned that consideration was “given to minimise job losses in regional and provincial centres”.

Devise a strategy to deal specifically with each class of affected employee (outsourced, retained, made redundant etc)

All cases with the exception of case C had a strategy to deal with different classes of employees and had formed an opinion as to who would remain, who would be made redundant and who would transfer to the supplier (Doc B-5, Doc D-4, Doc D-7, Doc E-6, Doc E-8). Int A-2 mentioned that for case A a list of staff members that would not be retained was compiled very early in the process. The workplace agreement had a number of requirements as to how they were to be dealt with. Int D-2 similarly confirmed that for case D differing strategies were devised for staff depending on whether the staff member would be made redundant, redeployed or transferred to the supplier. Int C-2 indicated that for case C while there was no formal strategy, affected staff were given opportunities to apply for other internal organisational non property management roles within the organisation. Int C-2 thought that a “more informal approach” was optimal as it gave affected staff an opportunity and time to discuss their future career with persons within the organisation.

Devise and implement support strategies to assist affected employees

Cases A, B, D and E had devised suitable outplacement and counselling for those staff expected to be retrenched (Doc A-6, Doc B-7, Doc D-8, Doc E-6). Case C did not have a formal support strategy but implemented an informal process of allowing affected staff to apply for other job roles within the organisation (Doc C-6).

Devise human resource issues communication strategy

All cases had a human resource issues communication strategy that addressed how human resource matters were communicated during the outsourcing process (Doc A-7, Doc B-8, Doc C-9, Doc D-7, Doc E-10).

Assess and evaluate at this early stage likely candidates either in house or external to assist with post transition management of the outsourcing contract

Int A-1 confirmed that case A quickly assessed its staffing needs as to who will remain or who will transfer to the supplier. Case B in Doc B-8 and case D in Doc D-7 decided

on initially those who were to be retrenched or redeployed and those that would remain to manage the outsourcing contract. Int C-2 confirmed that case C assessed its staff numbers based on expectations of the number of staff that the supplier would be able to absorb as part of the transfer of staff and those it required to manage the contract. Only case C had a requirement for the supplier to absorb a proportion of in house staff as part of the outsourcing arrangement (Doc C-8). Case E completed a staffing assessment based on a specific head count of staff remaining post outsourcing to manage the outsourcing contract (Int E-2, Doc E-9).

Inhibitors

Cases A and D experienced the most difficult constraints given their work place agreements required a defined process with timelines when staff were retrenched as a result of an outsourcing arrangement. Case C imposed a condition for the supplier to absorb inhouse staff as part of the outsourcing arrangement. Cases B and E were free from constraints as requiring supplier to absorb staff or otherwise deal with workplace agreements and outsourcing. All in all, the five cases addressed human resource issue inhibitors.

Deliverables

For all cases, a researched and carefully thought out human resource policy and strategy to deal with affected staff subject to outsourcing was established which dealt with human resource issues as required throughout the outsourcing process.

5.4.13 Research the specific outsourcing market including user experience (visit and talk to other users involved with similar outsourcing arrangement)

The assessment of whether there are suitable suppliers to perform outsourcing services to derive the desired benefits is critical. This requires consideration of supplier options to perform outsourcing services. The framework requires the following tasks to be completed:

Research actual outsourcing contracts in place dealing with functions similar to that proposed to be outsourced

Cases B, D and E conducted a desktop review of actual real estate outsourcing contracts in place (Doc B-7, Doc D-8, Doc E-9). Int A-2 confirmed for case A that the initial review by senior management assessed the experience of outsourcing of real estate in North America where outsourcing of real estate was more pronounced. He highlighted that one of their North American subsidiaries that had outsourced real estate functions was investigated. Int C-1 stated that for case C senior management had reviewed the outsourcing track record of the Australian Property Group that was

formed in 1996 to be the central real estate outsourcing body for many Federal government departments.

'Hands on' approach to research, visit and talk to users of relevant outsourcing services

Cases B, C and E visited a number of suppliers and client sites to discuss outsourcing (Int B-2, Doc B-7, Int C-4, Int E-3, Doc E-8). Int D-3 confirmed that case D utilised its contacts to inquire of other councils who had outsourced property management and operations. He mentioned that an onsite meeting was held with representatives of a regional Victorian council that had outsourced real estate functions in a manner proposed by Case D. Case A did not appear to visit any sites that had real estate outsourcing contracts in place (Int A-2, Doc A-4).

Utilise feedback to assess potential suppliers and prepare information documentation to suppliers

Common to cases B, C, D and E was that the feedback from the review pointed to a limited number of suppliers that could offer appropriate real estate outsourcing services (Int A-1, Int B-3, Int C-2, Int D-2, Int E-1). Int A-2 confirmed that their initial desktop review pointed to "no more than 3 supplier options".

Revisit risk considerations, expectations as to service and performance standards on results obtained from this research

Int B-2 stated that case B was concerned as to the capacity of suppliers to handle its repairs and maintenance requirements for regional and provincial locations. Case C in Doc C-7 and case E in Doc E-8 were concerned as to call centre response times. Int D-2 confirmed that for case D risk issues were considered in respect to system interfaces between its system and a supplier's system. Int A-1 thought that the feedback obtained from the review was not as carefully considered as it should have been. He pointed that all prospective suppliers had systems that were incompatible to the organisation's systems and this fact was not considered and explored further.

Inhibitors

It is not possible to obtain all required information on any prospective supplier from desk top reviews or from a brief short site visit. However, the cases did not have a large number of prospective suppliers in any case. For all cases, the limited number of suppliers and reference sites curtailed the utility of reference checking to a general overview of the market and for all cases the review of supplier and client sites gained some useful information.

Deliverables

An evaluation of the scope and nature of the outsourcing market including details of relevant outsourcing contracts of a size and scope proposed for the organisation was determined by the project team. This was achieved by cases B, C, D and E. It appears case A did not fully utilise the knowledge gained as a result of exploring the outsourcing market and supplier capability.

5.4.14 Build a culture that values and promotes a partnering approach in any outsourcing arrangement

A successful outsourcing arrangement is predicated on an alliance and partnering approach between organisation and supplier. The encouragement of this and the ongoing development of an alliance and partnering approach with any future supplier of outsourcing services is enhanced according to the framework by:

Define clearly in the business case the desired outcome of any outsourcing arrangement to be based on alliance and partnering principles

Cases D and E specified a partnering and alliance in its business case as being the desired outcome (Doc D-2, Doc E-3). Case B mentioned in Doc B-4 a number of alliance principles that was to guide any arrangement. Neither cases A and C had any stated partnering principles in their review or business case for outsourcing (Int A-2, Int C-1). While there were frequent references to the words partnering or alliance in the successful case business case and other supporting documentation, this was not the case for the unsuccessful cases.

Define partnering and alliance principles in terms of risk sharing, proper rewards and penalties, transparency, honest and ethical dealings

To various extents these matters were discussed in the business cases and related documentation of case B, D and E (Doc B-3, Doc B-4, Doc D-2, Doc D-5, Doc E-4). There was no apparent focus on partnering and alliance principles in any document pertaining to the outsourcing of real estate in cases A and C. Both Int A-2 for case A and Int C-1 for case C commented that the view of their respective organisation was that the outsourcing arrangement was purely contractual. Int A-2 went on to say that for organisation A, “alliances and partnering relationships with suppliers of services are alien”. Int A-2 confirmed that for the major part the view in the property division was of a “master-servant” approach to dealings with the supplier in the outsourcing of real estate functions.

Agree within the project team, with senior management and key stakeholders that an outsourcing arrangement based on a partnering and alliance approach is the preferred way to proceed, that is set this mindset from the outset

Cases D and E espoused directly in correspondence with senior management and key stakeholders the notion of maintaining a partnership approach with the chosen supplier (Doc D-6, Doc E-4). Int B-3 mentioned that the organisation had a partnering culture already with many of its stock suppliers and therefore the concept of partnering in real estate contracts for case B was not “alien”. The project teams for cases A and C did not directly work towards a partnering or alliance culture given the underlying view common to both cases was that the supplier was considered by the respective property divisions a service provider and no more according to Int A-1 and Int C-1.

Work towards instilling this approach within the broader organisation and address cultural barriers that inhibit a partnering culture being implemented

A partnering culture was already present in organisations B, D and E given their business relationships or past outsourcing of other business functions. For cases B and E, both organisations had close working relationships with their stock suppliers (Int B-1, Int E-2). The culture of partnering in outsourcing was well developed in case D and according to Int D-1, a real estate outsourcing contract would be conducted on the same partnering principles that the council adopted in the outsourcing of information system services some five years earlier. Cases A and C had little outsourcing experience and the organisational culture for both organisations was not conducive to partnering or alliance principles (Int A-1, Int C-1). According to Int A-2, outsourcing of real estate functions was resisted by many within the property division and therefore these persons were likely to see the supplier as the “enemy”.

Assess organisational culture via a culture audit (review organisational behaviours and ways of working) to ascertain the fit of a partnering culture in the broader organisational culture

A culture audit review was not performed by any of the cases although there was evidence that for cases B, D and E there was some attempt to look at ways of improving working or otherwise enhance the organisational approach to partnering in outsourcing arrangements. Int B-1 commented that for staff to be retained they were assessed on their ability to deal with outside suppliers and act as managers not “doers”. Similarly, Int E-2 believed that a partnering culture with suppliers was already entrenched within the organisation. In Doc D-6, there was some assessment of the council’s history of managing outsourcing contracts (principally the information systems outsourcing contract) and how supplier and council have created alliance and partnering principles and lessons learnt. The unsuccessful cases did not have

partnering principles to begin with and accordingly there was no assessment of the existence of a partnering culture.

Take suitable actions to rectify any findings from the culture audit that need to be addressed

Not relevant as a culture audit not performed by any of the cases.

Address individual management practices and styles that inhibit a partnering culture with senior management support and assistance if necessary

Int E-2 confirmed that case E addressed a number of internal staffing issues where required input into the outsourcing process was not received on a timely basis. Other cases did not report any individual management practices to address with the exception of case A where Int A-2 stated that “case A continually had issues with some of its internal staff who were disruptive to the outsourcing process”. He added that senior management did little to address this.

Assess ways to ‘transform’ the organisation to accept partnering and alliance by encouraging managerial discretion, ‘intrapreneurship’ and otherwise moving away from internally focused organisational behaviours

Int B-2 stated that case B conducted inhouse training sessions as to outsourcing processes conducted by a management consultant. Case D had detailed outsourcing and competitive tendering policy manuals that espoused partnering and alliance principles (Doc D-7). The external consultant leading the project team in case E arranged for a small group session on the outsourcing process and how to maximise a successful outcome as a way to enhance partnering and alliance building within the organisation (Int E-2). Cases A and C were unable to create a partnering culture as there was a strong internal focus on management behaviours that were unwelcoming to external suppliers and were “insular” in their behaviour (Int A-2, Int C-2).

Inhibitors

Partnering and alliance principles within an organisation do not come automatically but rather are developed or nurtured. The successful cases had a background in encouraging a partnering and alliance culture with its suppliers. These organisations also explored ways to build on this. The unsuccessful cases had no background in partnering or alliance principles. It also that for these cases that management was unable to deal with internal business units or staff that conspired against or otherwise resisted a partnering or alliance culture with a supplier.

Deliverables

A commitment to partnering and alliance building from the project team and broader organisation stakeholders including senior management has been established and agreed as to the preferred way to proceed with any outsourcing arrangement. This was achieved in the case of cases of B, D and E. However this was not achieved for the unsuccessful cases A and C.

5.4.15 Milestones achieved – Phase 1

At the conclusion of the first phase, the decision to proceed further with the outsourcing process will be made based on the analysis completed during phase 1. The first phase of the outsourcing process will require the consideration or completion of the following deliverables or tasks:

- Objectives and aims of proposed outsourcing clearly enunciated (achieved for cases A, B, C, D and E)
- Senior management buy in to the outsourcing process (achieved for cases A, B, C, D and E)
- Project champion nominated to assist the outsourcing process (achieved for cases A, B, C, D and E)
- Understanding of business objectives and drivers for outsourcing (achieved for cases B, D and E, not achieved for cases A and C)
- Consistency of business objectives and drivers to broader organisational objectives (achieved for cases B, D and E, not achieved for cases A and C)
- Establish a project team with a qualified project leader dedicated to the outsourcing process (achieved for cases A, B, C, D and E)
- Allocate sufficient resources and provide for a satisfactory operating budget to the project team (achieved for cases A, B, C, D and E)
- Significant stakeholder involvement from the outset (achieved for cases B, D and E, not achieved for cases A and C)
- Create a partnering mind set in proceeding with the outsourcing process (achieved for cases B, D and E, not achieved for cases A and C)
- Devise a communication strategy (achieved for cases A, B, C, D and E)
- Devise a human resource strategy (achieved for cases A, B, C, D and E)
- Signed off business case with proper risk analysis (achieved for cases B, D and E not achieved for cases A and C)
- Research outsourcing market and feedback (achieved for cases B, C, D and E, not achieved for case A)

- Conduct culture audit and assess if conducive to outsourcing (achieved in part by case B, D and E, not achieved by cases A and C)
- Address required organisational changes to achieve a partnering and alliance culture (achieved by cases B, D and E, not achieved by cases A and C)
- Building a partnering and alliance culture as an preferred outsourcing approach within the project team, senior management and the broader organisation (achieved by cases B, D and E, not achieved by cases A and C)

The next phase of the outsourcing process (Phase 2) considers the selection of a supplier to perform the outsourcing functions.

5.5 Phase 2 : Tender, Negotiation and Selection of Successful Supplier Phase

Phase 2 involves the initial interaction with suppliers and tender of the outsourcing contract. At the end of phase 2, the successful supplier to perform the outsourcing services will be selected. The following table summarises the number of phase 2 tasks as outlined in the framework evident in the successful versus the unsuccessful cases.

Phase Two analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Completing the preparatory work prior to formal tender					
Assess required preparatory work	Yes	Yes	Yes	No	No
Devise a pretender capabilities statement	Yes	Yes	Yes	No	Yes
Utilise capabilities statement to position suppliers and format of tender	Yes	Yes	Yes	No	Yes
Request capabilities statement response from suppliers	Yes	Yes	Yes	No	Yes
Collate data received from suppliers in capabilities statement response	Yes	Yes	Yes	No	Yes
Revisit supplier tender list on information obtained	Yes	Yes	Yes	No	No
Revisit tender objectives and aims in the light of information obtained	Yes	Yes	Yes	No	No
Do not prolong pre tender process	Yes	Yes	Yes	No	Yes
Use supplier feedback to position outsourcing process	Yes	Yes	Yes	No	Yes
Short list suppliers	Yes	Yes	Yes	Limited	Yes
Prepare tender documentation	Yes	Yes	Yes	Yes	Yes

Phase Two analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Tender documentation requires statement of outsourcing scope, performance objectives					
Detail desired outsourcing scope and objectives	Yes	Yes	Yes	No	Yes
Outline the drivers for outsourcing in tender documents	Yes	Yes	Yes	No	No
Provide the mission statement	Yes	Yes	Yes	No	No
Adopt absolute and relative performance standards in the tender documentation	Yes	Yes	Yes	Yes	No
Ensure SLA's consistent with broader organisational objectives	Yes	Yes	Yes	No	No
Conduct a tender documentation consistency review check	Yes	Yes	Yes	No	No
Consistency review check completed independently	Yes	Yes	Yes	No	No
Use tender documentation to instil partnering approach					
Focus on ethical tender process	Yes	Yes	Yes	No	No
Appoint and ethics and compliance officer to monitor the process	Yes	Yes	Yes	No	No
Focus on partnering approach to tender process	Yes	Yes	Yes	No	No
Avoid adversarial approach	Yes	Yes	Yes	No	No
Avoid tender documentation and correspondence that is dictatorial in practice	Yes	Yes	Yes	No	No
Work on organisational culture to promote partnering approach	Yes	Yes	Yes	No	No
Demonstrate partnering and alliance approach throughout tender process	Yes	Yes	Yes	No	No
Tender process to have stakeholder and senior management buy-in to timetable					
Obtain key stakeholder support for timelines	Yes	Yes	Yes	No	No
Allocate sufficient human resources to the tender process	Yes	Yes	Yes	Yes	Yes
Allocate sufficient financial resources to the tender process	Yes	Yes	Yes	Yes	Yes
Ensure key stakeholders are on project team during tender process	Yes	Yes	Yes	No	Limited

Phase Two analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Obtain stakeholder support to SLA's and performance standards in tender documentation	Yes	Yes	Yes	Yes	No
Refer continually to senior management to deal with blockages, impasses	Yes	Yes	Yes	No	No
Develop tender scoring system, weightings					
Tender evaluation criteria consistent with drivers, aims and objectives for outsourcing	Yes	Yes	Yes	Yes	Yes
Formulate evaluation criteria in easy to understand terms	Yes	Yes	Yes	Yes	Yes
Adopt consistent measurement and scoring system	Yes	Yes	Yes	No	No
Limit quantitative measures for quantitative criteria and qualitative measures for qualitative criteria	Yes	Yes	Yes	Limited	No
Assess strategic fit and partnering potential	Yes	Yes	Yes	No	No
Assess supplier ability to mitigate key risk issues in business case	Yes	Yes	Yes	No	No
Ensure and monitor evaluation process is fair, standardised and even handed	Yes	Yes	Yes	No	No
Communication strategy for management, stakeholder through tender process					
Decide on the most optimal communication strategy	Yes	Yes	Yes	Yes	Yes
Consider legal and legislative requirements	Yes	Yes	Yes	No	No
Review timelines as to feasibility especially in respect to human resource requirements	Yes	Yes	Yes	No	Yes
Adopt appropriate communication strategies	Yes	Yes	Yes	Limited	Yes
Tailor communication strategy to needs of stakeholders	Yes	Yes	Yes	Limited	Yes
Deal with uncertainty	Yes	Yes	Yes	No	No
Deal with how, why, when, what questions from staff	Yes	Yes	Yes	No	Limited
Audit review of supplier responses					
Audit and independent review of risk issues detected from supplier responses	Yes	Yes	Yes	No	No
Consider acceptability of risk issues and mitigation strategies	Yes	Yes	Yes	No	No

Phase Two analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Determine actions to mitigate risks identified from review	Yes	Yes	Yes	No	No
Adopt tender response verification and supplier checking process					
Take into account privacy and trade practices legislation	Yes	Yes	Yes	No	Yes
Conduct reference checks supplier's current clients	Yes	Yes	Yes	Limited	Limited
Conduct a verification review	Yes	Yes	Yes	Limited	Yes
Verify supplier's system in a live operating environment	Yes	Yes	Yes	No	No
Assess supplier's service record	Yes	Yes	Yes	Limited	No
Perform trial runs on supplier systems using organisational data	Yes	Yes	Yes	No	No
Assess risk issues on information obtained from trial runs	Yes	Yes	Yes	No	No
Service delivery and performance standards to be clear and precise in tender documentation					
Ensure suppliers understand performance standards	Yes	Yes	Yes	Limited	Limited
Produce tender documentation with clear performance and service standards	Yes	Yes	Yes	No	No
Adopting and objectives, drivers and aims of outsourcing arrangement and service standards to meet these standards	Yes	Yes	Yes	No	No
Adopt recognisable industry terms	Yes	Yes	Yes	No	Yes
Use a glossary for those difficult terms, such as acronyms and organisational specific terms	Yes	Yes	Yes	No	No
Specify quantitative measures and tolerance limits	Yes	Yes	Yes	Yes	Yes
Specify qualitative measures for service delivery and performance standards	Yes	Yes	Yes	Yes	Yes
Outline legislative and business imperatives	Yes	Yes	Yes	Yes	No
Linking service delivery and performance standards to rewards and penalties	Yes	Yes	Yes	No	Yes
Address audit concerns					
Assess if new risks identified	Yes	Yes	Yes	Limited	Limited
Assess mitigation strategies for new risks identified	Yes	Yes	Yes	Yes	Yes
Quantify risk in terms of materiality and business continuity	Limited	Yes	Yes	Yes	Limited

Phase Two analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Assess if original objectives of outsourcing are relevant in light of new risks identified	Yes	Yes	Yes	Yes	Yes
Assess risks to files, assets and business continuity	Yes	Yes	Yes	Yes	Yes
Assess if magnitude of risk is sufficient to terminate outsourcing process	Yes	Yes	Yes	Yes	Yes
Adopt a win-win approach to tender negotiations					
Adopt a negotiation strategy that builds trust and support	Yes	Yes	Yes	No	No
Decide who will negotiate with supplier from organisation	Yes	Yes	Yes	No	No
Encourage consensus not argument	Yes	Yes	Yes	No	No
Not sweat on small stuff	Yes	Yes	Yes	No	No
Demonstrate a desire for risk reward sharing	Yes	Yes	Yes	No	No
Engage in open and timely discourse	Yes	Yes	Yes	No	No
Adopt plain English drafting of contract	Yes	Yes	Yes	Yes	Yes
Provide tolerance levels within reason in meeting service standards	Yes	Yes	Yes	No	Limited
Having a proper and ethical reward and penalty system	Yes	Yes	Yes	No	No
Allow for grace periods and tolerances for difficult service standards , eliminate in scope and out of scope stance	Yes	Yes	Yes	No	Yes
Allow flexibility for contract variation and amendment	Yes	Yes	Yes	Limited	Yes
Timelines and ethical behaviour in advising decision to suppliers					
Monitor and take action to ensure timelines met	Yes	Yes	Yes	No	No
Ensure delays in the tender process are communicated to suppliers	Yes	Yes	Yes	No	Limited
Manage media exposure and scrutiny	Yes	Yes	Yes	No	No
Utilise a compliance or ethics officer to monitor and report breaches	Yes	Yes	Yes	No	No
Provide a forum that is accessible to all suppliers during the tender process	Yes	Yes	Yes	No	No
Obtain signoff from compliance officer that tender process conducted in ethical manner	Yes	Yes	Yes	No	No
Plain English contract in concise terms					
Contract in plain English style	Yes	Yes	Yes	Yes	Yes
Outline outsourcing aims and objectives upfront	Yes	Yes	Yes	No	No

Phase Two analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Detail service delivery and performance standards	Yes	Yes	Yes	No	No
Outline partnering principles and how to achieve them	Yes	Yes	Yes	No	No
Outline information gaps	Yes	Yes	Yes	No	No
Specify monetary values in contract	Yes	Yes	Yes	No	Yes
Avoid convoluted monetary payment formulas in contract	Yes	Yes	Yes	No	Yes
Advise proposed payment escalation clause	Yes	Yes	Yes	No	Yes
Highlight dispute resolution procedures	Yes	Yes	Yes	Yes	Yes
Clearly specify rewards, penalties and variation rights	Yes	Yes	Yes	Yes	Yes
Impose a termination variation regime	Yes	Yes	Yes	Yes	Yes
Derive a risk and reward sharing table	Yes	Yes	Yes	No	No
Overall review of contract to ensure risk and reward sharing in contract	Yes	Yes	Yes	No	No
Define key terms as a glossary to contract	Yes	Yes	Yes	Yes	Yes
Focus on risk and reward sharing					
Derive a suitable risk and reward table	Yes	Yes	Yes	No	No
Define performance standards clearly	Yes	Yes	Yes	No	Yes
Ensure performance standards consistent with scope, aims and objectives of outsourcing contract	Yes	Yes	Yes	Yes	Yes
Set performance hurdle neither too difficult or too easy	Yes	Yes	Yes	No	Yes
Ensure risk and reward regime set equitably and fairly	Yes	Yes	Yes	No	No
Assess effect of legislative changes on supplier workload	No	Yes	No	No	Yes
Assess suitability of return to supplier	Yes	Yes	Yes	Yes	No
Allow negotiation to the risk and reward regime	Yes	Yes	Yes	No	No
Define non negotiable risk boundaries	Yes	Yes	Yes	Yes	Yes
Set performance rewards using proper metrics and evaluation criteria	Yes	Yes	Yes	No	Yes
Match performance rewards to specific performance standards	Yes	Yes	Yes	No	Limited
General considerations in drafting a contract					
Understand contract legal document	Limited	Yes	Limited	Limited	Limited
Ensure contract strong on corporate governance	Yes	Yes	Yes	No	No

Phase Two analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Contract thrust to engender partnering	Limited	Yes	Yes	No	No
No template fits all, specific contract needed	Yes	Yes	Yes	Yes	Yes
Contract drafted to be flexible in changing circumstances	Yes	Yes	Yes	Limited	Limited
Distinct contractual provisions expected in outsourcing contract	Yes	Yes	Yes	Limited	Limited
Contract penalties, terminations and contingencies					
Termination provisions take into account business continuity	Yes	Yes	Yes	Yes	Yes
Communicate tender result to affected stakeholders					
Proper communication strategy to be implemented	Yes	Yes	Yes	Yes	Yes
Allow for proper feedback from stakeholders	Yes	Yes	Yes	No	No
Complete communication tasks prior to transition phase	Yes	Yes	Yes	Limited	Limited
Appoint a transition team and transition team leader					
Appoint suitable transition team leader	Yes	Yes	Yes	No	No
Deal with culture differences between organisation and supplier					
Address early on cultural differences between supplier and organisation	Yes	Yes	Yes	No	No
Embrace cultural differences	Yes	Yes	Yes	No	No
Transition leader to deal with entrenched organisational attitudes	Yes	Yes	Yes	No	No

Table 5.4 : Summary of Phase 2 Case Study Performance

The key tasks for phase 2 are:

5.5.1 Completing the preparatory work before the commencement of the formal tender

The framework provides that certain preparatory and pre-tender tasks are required to be completed ahead of the formal tender. The main preparatory work and tasks required are:

Assess the required preparatory work needed to be done before formal tender

For cases D and E, the project teams used project management software to outline the tasks and due dates required to be completed prior to commencing the formal tender (Doc D-7, Doc E-6). Although not as formal, case B had compiled a task list with tasks, milestones and persons to complete the task(s) using Excel 2003 software (Doc B-5). According to Int B-1, the spreadsheet was updated to reflect action taken and tasks completed. There appears to be no pre tender preparatory assessment for cases A and C (Int A-1, Int C-2).

Devise a pre- tender capabilities statement to be issued to prospective suppliers

A pre-tender capabilities statement was created in the cases of cases B, C, D and E for issue to prospective suppliers (Doc B-5, Doc C-6, Doc D-7, Doc E-8). Case A had defined its list of potential suppliers and according to Int A-2 the view was that a capabilities statement would give little information given the limited number of suppliers.

Utilise the capabilities statement and pre tender process to position with suppliers the outsourcing process in general terms and highlight the format of the tender and the steps in the outsourcing process

The pre-tender capabilities statement and pre-tender work assisted cases B, C, D and E to formulate their final tender format and position the process with suppliers. Int B-2 stated that the pre tender capabilities statement provided the suppliers some background to commence working prior to the tender document being issued. Int C-1 utilised the capabilities statement to give prospective suppliers a guide as to the scope of the tender and allow them to prepare their resources for the tender. Int D-3 mentioned that the capabilities statement assisted in allowing suppliers to assess whether the tender was “worth doing”. Similarly Int E-2 believed that the capabilities statement and pre tender process allowed both the organisation and supplier to commence the process without the supplier committing to any formal tender process and thereby saving resources and time.

Request a capabilities statement response from selected suppliers identified to receive the capabilities statement

A response from suppliers to the capabilities statement was received in cases B, C, D and E (Doc B-7, Doc C-8, Doc D-8, Doc E-9).

Collate data gained in terms of experience, performance and track record as ascertained for each supplier who participates in the pre-tender process

The pre-tender process provided valuable information for cases B, C, D and E. According to Int B-2, case B being new to real estate outsourcing was able to identify

suppliers that could handle its regional and provincial stores. Int C-3 stated that case C compiled a list of suppliers as to strength in facilities management. This was an area of property management where case C expected outsourcing to assist. For case D, this pre tender process allowed it to assess prospective suppliers on broad capabilities. As outlined in Doc D-7, case D conducted a preliminary review of what supplier capabilities were available for the various real estate functions it hoped to outsource. For case E, the pre-tender process allowed the organisation according to Int E-2 to report to its external stakeholders on whether there were suitable suppliers to handle the real estate functions conducted in house.

Revise list of suitable suppliers in the light of the information gained from capabilities statement response (cull original supplier list and shortlist suppliers to proceed to formal tender process)

Cases B and D removed a prospective supplier from the list due to perceived service ability shortfalls of that supplier (Int B-2, Int D-1). Cases C and E added a potential supplier that was not originally considered to make the final tender list (Int C-2, Int E-4). As case A did not conduct a pre-tender process, Int A-2 confirmed that the prospective suppliers were chosen from the outset and there was no ability to add additional suppliers to the tender process.

Revisit outsourcing objectives, drivers for outsourcing, business case, risk analysis and service and performance standard expectations in the light of supplier responses

Following the information gained in the pre-tender process, Int B-2 confirmed that case B re-evaluated the repairs and maintenance response time required for some of its more distant regional sites given for many suppliers, their coverage were limited to the major cities and larger provincial cities. Int E-1 stated that based on the pre-tender information, case E detected potential problems with a supplier running a local help desk to cater for its West Australian sites given the time difference. This meant that alternative ways of catering for its Western Australian operations had to be derived. Int C-2 considered the lack of major leasing and sales experience for many of the suppliers meant that these functions may have to remain inhouse. Int D-1 stressed that the pre-tender process highlighted some risks in project management delivery as the majority of suppliers did not handle projects of the scale conducted by the council. Int E-2 considered the pre-tender process to highlight additional risks for case E in transferring the security and fire services monitoring from case E to a prospective supplier.

Do not prolong pre tender process and get suppliers offside, keep moving with the process and do not stall without keeping suppliers informed

All cases with the exception of case A ran their respective pre-tender process on a timely basis and within the timetable set (Doc B-7, Doc C-8, Doc D-9, Doc E-7).

Utilise the information provided to suppliers to position the process and gain valuable feedback prior to formal tender process commencing

Cases B, C, D and E used the information to provide suppliers a scope as to position of size and complexity of the proposed outsourcing arrangement (Int B-2, Int C-1, Int D-2, Int E-1, Doc B-8, Doc C-7, Doc D-8, Doc E-8).

Short list the suppliers to participate in tender and inform those who missed out

Cases B, C, D and E derived the list of potential suppliers from the pre-tender process and responses gained from the capabilities statement forwarded to suppliers (Int B-2, Int C-1, Int D-2, Int E-1). Case A according to Int A-1 had a defined list of suppliers that it considered suitable for the formal tender process.

Prepare tender documentation in readiness for tender process

This occurred for all cases (Doc A-6, Doc B-7, Doc C-8, Doc D-9, Doc E-7).

Inhibitors

The lack of information on suppliers and scope of services offered is a challenge at the early stages of the outsourcing process. With the exception of case A, all other cases participated in the pre-tender process including issuing a capabilities statement to prospective suppliers. The capabilities statement forwarded to supplies helped in their assessment of suitable tender parties, provided some insight into additional risks and highlighted areas to further consider in the formal tender process.

Deliverables

For cases B, C, D and E the pre-tender exercise assisted in culling or adding to the list of suppliers to ensure the most suitable suppliers participated in the formal tender process. Case A had a defined list of suppliers that it had derived without a pre-tender process or use of a capabilities statement.

5.5.2 Tender documents require clear statement of outsourcing scope, objectives and performance expectations in absolute and relative terms

The framework provides that the tender documentation must be clear in providing details of outsourcing scope, objectives and performance expectations. To achieve this, the tender documentation is to be prepared taking into account the following tasks or considerations:

Detail clearly the desired outsourcing scope and objectives in any tender documentation

This occurred for cases B, C, D and E within the body of the formal tender documentation and the scope and objectives of outsourcing corporate real estate were clearly defined (Doc B-7, Doc C-8, Doc D-9, Doc E-8). Case A in Doc A-6 provided covering letter with the tender documentation as to the background and reasons for desiring outsourcing but did not discuss outsourcing scope and objectives.

Outline the drivers for outsourcing to give suppliers a guide as to what the organisation is hoping to achieve from the outsourcing arrangement

Cases B, D and E outlined the drivers for outsourcing within the body of the tender document (Doc B-7, Doc D-9, Doc E-8). Given the move to outsourcing was driven by senior management direction, Cases A and C did not outline the drivers for outsourcing in the tender documentation (Int A-2, Int C-2).

Provide them the 'mission statement' desired for the outsourcing arrangement

None of the case study tender documents provided a 'mission statement' for outsourcing although cases A, B and D outlined the organisational mission statement in the tender document (Doc A-7, Doc B-7, Doc D-9).

Adopt both absolute and relative measurement standards in the tender documentation when discussing costs and performance outcomes expected from suppliers in the outsourcing arrangement

Cases B, C, D and E detailed in the tender documentation the performance standards for each real estate function and operation in detailed terms as to performance expectations expressed as required in relative or absolute terms (Doc B-7, Doc C-8, Doc D-9, Doc E-8). Case A adopted a generalised approach to outlining performance standard for real estate functions in a manner that the performance standard was expressed in general terms without actually given a measurement to the standard. For example, many of the performance standards were defined in the tender documentation in terms such as "achieving prompt and efficient processing of routine maintenance inquiries" as stated for case D (Int D-2). It required the supplier to respond as to its expected performance for the general standard highlighted in the tender documentation (Doc A-7). According to Int A-2, the objective was to receive from the supplier its view on what it believed was efficient processing of routine maintenance inquiries without specifying anything specific in the tender documentation.

Ensure Service Level Agreements (SLAs) forming part of the outsource tender documentation are consistent with the broader organisational objectives and needs

Case A in Doc A-7 attached its desired SLAs as an appendix to the main tender document. Cases B, C and E outlined SLAs within the body of the proposed contract format enclosed with the tender documentation (Doc B-7, Doc C-8, Doc E-8). Case E in Doc D-9 provided as part of the formal tender documentation a detailed manual for its desired service standards and absolute and relative performance measures as relevant.

Conduct a tender documentation consistency check review to ensure outsourcing scope, objectives and drivers specified in tender documentation are in line with signed off business plan and broader organisational objectives.

Case D in Doc D-9 was the only case where a concept of a tender documentation consistency check review was referred to. However case B reviewed in Doc B-4 and Doc B-7, the scope and aim of outsourcing real estate functions and the value to the organisation as a whole. Case E in Doc E-5 and Doc E-8 considered the effect on enterprise value of the organisation in outsourcing real estate functions. There was no consideration in cases A and C in the tender documentation as to outsourcing and broader organisational objectives.

Ensure the consistency check is completed independently by a person not associated with the outsourcing project team, suggest internal or external auditor

Int D-2 confirmed that case D's tender documentation was checked by its internal auditor prior to release and the consistency check review was perused by the internal auditor to ensure that benefits proposed from outsourcing had a basis to be made by the project team. For cases B and E, the respective internal auditors checked the business case and the recommendations of proceeding with the outsource process and benefits to the organisation could be substantiated (Int B-2, Int E-1). There appears to be no consistency check conducted for case C. Similarly this was also for case A. Int A-2 stated that internal audit involvement in the outsourcing process was delayed into the start of the transition phase and accordingly there was no internal or independent review of the tender documentation, tender process or consistency of outsourcing objectives with broader organisational goals.

Inhibitors

Performance standards and service level agreements are difficult to articulate and to measure. Cases B, C, D and E outlined expected performance standards, Service Level Agreements and other expectations of the outsourcing arrangement using absolute and relative performance measures as relevant. Case A adopted the

approach that is articulated its performance standards in general terms and required the suppliers to respond as to their expectations of what they can deliver by way of performance standards.

Deliverables

For cases B, D and E the tender documentation clearly stated the objectives, aims, drivers and scope of outsourcing desired by the organisation. Performance and service delivery standards were articulated clearly in the tender documentation prepared by cases B, C, D and E. Although, cases A and C articulated the scope, aims and objectives proposed for outsourcing, the drivers for outsourcing were not clearly articulated in the tender documentation in cases A and C.

5.5.3 Use tender process and produce documentation consistent with establishing a partnering approach and mind set

It is important that the tender documentation is framed and worded in a manner to encourage the building of a partnering and alliance relationship between organisation and supplier. The framework outlines that this can be achieved by the following tasks:

Focus on ethical tender process to demonstrate partnering approach

Cases B, C, D and E had a written ethics policy that guided the tender process (Doc B-7, Doc C-7, Doc D-8, Doc E-9). Although, case A did not have a formal policy it nevertheless according to Int A-1 maintained an “ethical approach to the tender at all times”.

Appoint an ethics and compliance officer to monitor the outsourcing process through the supplier selection stage

Case D was the only case to have an ethics and compliance officer (Doc D-8). Cases B, C and E had their respective external legal advisers monitoring the process (Doc B-7, Doc C-6, Doc E-9). Int A-2 confirmed that case A did not have a compliance officer or legal advisor monitoring the process. However, Int A-2 pointed out that “the process was conducted with absolute integrity”.

Focus on a partnering attitude and ensure that process and documentation are framed in form and substance as a true partnering process

Cases B, D and E mentioned partnering and alliance principles in their tender documentation on a several occasions as the preferred manner to operate the tender arrangement (Doc B-7, Doc D-8, Doc E-9). This was not the case for cases A and C. Int A-1 explained that the real estate outsourcing project was the first major outsourcing initiative within the organisation and that the concept of partnering and alliances with a vendor was “alien” to the property division that conducted the outsourcing process.

Similarly, Int C-2 pointed to a broad organisational view that “the supplier was simply a service provider”. Accordingly there was no evidence in cases A and C of any attempt to foster a partnership alliance in their outsourcing arrangement.

Avoid adversarial approach to tender negotiations

The successful cases did not demonstrate an adversarial approach to tender negotiations. Int B-1 stated that the process was conducted “cordially”. Similarly, Int D-2 and Int E-1 confirmed that the tender negotiations were conducted in a non adversarial manner. However for the unsuccessful cases A and C, the situation was different and there was evidence of occasions of terse discussions and negotiations between tender party and organisation. Int A-2 confirmed that one tender party was “pedantic” and “over the top” in the number of questions and clarifications in respect to the tender documentation requested by the tender party from the project team. Int C-1 mentioned that there were terse discussions on the subject of a “guaranteed fixed maximum price” that some of the senior executives wanted canvassed with prospective suppliers.

Avoid tender documentation and/or correspondence with suppliers in form and substance that is non partnering and dictatorial in format

According to Int A-2, case A’s covering letter to tender parties appeared dictatorial given its tone on timelines and tender response process. He pointed to the initial letter to tender parties that was couched in terms of “you must, you should” (Doc A-5). Int C-1 mentioned that case C provided a tender document that did not focus on reward sharing for performance and was framed in terms favouring organisation C. There was no evidence for cases B, D and E of a similar approach to adversarial type documentation or correspondence.

Work throughout the tender process on organisational culture and management practices to promote partnering approach and set it as a management discipline throughout the organisation

Cases B, D and E engaged with its business units throughout the tender process by keeping them up to date and discussing the format of the tender documentation with them especially as to Service Level Agreements and performance expectations (Doc B-7, Doc D-8, Doc E-9). The perception in talking to case B, D and E managers was that their respective organisations had a partnering and alliance culture already in place. This was not the case with cases A and C. Their respective managers appeared to view supplier relationships in narrow contractual terms and did not see how the broader organisation could assist them. In case A, Int A-1 considered that the organisation had no understanding of partnering or alliance culture and especially why

it was important. For case C, Int C-2 believed that the property division saw the outsourcing process as “their baby” and there was no need to have other divisions “second guess” them.

Demonstrate and facilitate partnering during the tender process by:

- involving stakeholders especially in signing off to service standards in the tender documentation,
- adopting a fair and consistent approach in dealing with suppliers and encourage supplier innovation within limitations in the tender process

As part of the tender process, cases B, D and E required the business units to sign off service and performance standards pertaining to their units (Int B-2, Int D-2, Int E-1). Cases B and E defined stakeholders broadly and included franchise and external stakeholders as relevant in the signing off of service standards expected in the outsourcing contract (Doc B-5, Doc E-7). Cases A and C had difficulty gaining support from all business units as to the proposed delivery for some of the services proposed under the outsourcing contract (Int A-1, Int C-3).

All cases treated all suppliers fairly and consistently in terms of the tender process. Generally, supplier questions and answers were circulated to all tender parties in all cases. Cases D and E focused on supplier innovation by encouraging suppliers to consider initiatives that were not raised in the tender documentation but could be relevant (Int D-2, Int E-1).

Inhibitors

Organisational culture may be at odds with a partnering and alliance building strategy proposed for the outsourcing contract. This was the case for cases A and C. In addition, these cases did not demonstrate evidence of business unit and/or stakeholder engagement in setting service standards. However the other three case study organisations worked in a partnering and alliance manner and engaged with business units and stakeholders to create a partnering and alliance culture with the prospective suppliers.

Deliverables

Tender documentation and overall a tender process clearly based and implemented on partnering and alliance principles are required in the framework. This was the case for cases B, D and E but not for cases A and C. The tender documentation clearly defines scope, aims, objectives and drivers of the proposed outsourcing arrangement. In addition, the tender process should encourage supplier initiative. This was the case for cases B, D and E.

5.5.4 Establish a tender process with stakeholder and management buy in to timetable, resources allocated and key performance criteria

The framework requires a tender process that has had key stakeholder and management buy in to outsourcing timetable, resources allocated to the project team and key performance criteria for the project team. This is achieved by the following:

Obtain from key stakeholders within the organisation and from selected third parties relevant to the delivery of inhouse functions support for timelines set out in the tender documentation

The successful cases advised their respective stakeholders including as relevant external parties the tender process, milestones and timetable at the start of the tender (Int B-1, Int D-2, Int E-3). Case A according to Int A-1 kept the tender process within the property division. Case C kept the key stakeholders such as the organisation's major business units informed but no other stakeholders (Int C-1).

Allocate sufficient financial resources to project team from key stakeholders

The five cases appear to have had sufficient financial resources provided to the respective case project teams (Int A-2, Int B-2, Int C-1, Int D-1, Int E-2).

Allocate sufficient human resources to the project team

The five cases appear to have had sufficient human resources allocated to the outsourcing project team (Int A-2, Int B-2, Int C-1, Int D-1, Int E-2).

Ensure representatives from key affected organisational stakeholders are on project team during tender process

Cases B, C, D and E had stakeholder input throughout the tender process (Int B-2, Int C-1, Int D-2, Int E-2). For case D, Int D-2 confirmed it was policy of the council to have representatives of the main divisions on any major outsourcing project team. Cases B and E had external stakeholders on the project team (Int B-2, Int D-3). For case C, stakeholder input was limited to project team briefing to major business units only without these units having representatives on the team. For case A, there were no representatives of key stakeholders on the project team during the tender process (Int A-1).

Obtain broad organisational stakeholder input to service level standards and performance standards specified in the tender documentation prior to release of tender documentation

Cases B, C, D and E obtained organisational stakeholder input into service standards (Int B-2, Int C-1, Int D-1, Int E-2). This was not evident for case A based on the

comments from Int A-1 who confirmed that stakeholder input for service level standards was not obtained.

Refer continually to senior management to resolve blockages, impasses and personal agendas in the setting of service standards and performance standards

This was not required for cases B, D and E as there was no apparent blockage or impasses from stakeholders in the setting of service standards (Int B-1, Int D-2, Int E-2). However, cases A and C did not request senior management assistance to deal with personal agendas from divisional staff and/or business units in the setting of performance standards (Int A-1, Int C-2). Int C-2 lamented that some of the business units insisted on state based property help desk/call centres and this was in conflict to key outsourcing principles and guidelines set by the project team. He believed that senior management support and assistance in hindsight should have been obtained to resolve this matter.

Inhibitors

The tender process may incur unforeseen roadblocks from within and outside the organisation that may adversely impact on tender deadlines. Stakeholder engagement, input and buy in to the development of service level standards is critical and if missing will impact on outsourcing success. Cases B, D and E appeared able to deal with any roadblocks and inhibitors. This was not the case for cases A and C.

Deliverables

The project teams for all cases had been properly resourced to conduct the tender. In addition, the tender process for all cases had strict deadlines and milestones set. Input from affected stakeholders has been obtained ahead of the documentation going to suppliers. This occurred for cases B, D and E. The situation with case A and C was more problematic given the difficulties with personal agendas and requirements of its stakeholders that were at odds with the desired direction of the outsourcing contract.

5.5.5 Develop tender guidelines, criteria, weightings and scoring system to assist with selection

The selection of a successful tender party requires an objective approach. This is achieved by the following tasks considered by the framework as being important:

Ensure tender evaluation criteria are defined and priorities allocated consistent with assessing the ability of the tender party to meet the objectives, drivers and aims of the outsourcing arrangement proposed.

Apart from case A, the evidence is that cases B, C, D and E defined tender evaluation criteria in terms of objectives, aims and drivers of the outsourcing process (Int B-2, Int

C-1, Int D-2, Int D-1). For case A, Int A-2 acknowledged that the lack of clear tender evaluation criteria in the tender documentation consistent with outsourcing objectives and aims was a shortfall. He added that the tender process was “more about seeing about what the supplier had to offer in terms of performance and not dictating to a supplier our expected performance”.

Formulate evaluation criteria in clear to understand terms, that is define for example performance standard criteria in specific not general terms

Cases B, C, D and E defined their evaluation criteria in specific terms not general terms (Doc B-5, Doc C-6, Doc D-7, Doc E-6). Case A expressed its performance standard criteria in general terms (Doc A-6).

Adopt consistent tender evaluation, measuring and scoring system for all suppliers with weighting system of evaluation criteria signed off by senior management and project team after taking input from stakeholders

All cases studies had a tender evaluation scoring system. However, cases A and C did not have stakeholder input unlike cases B, D and E into how the tenders were to be evaluated (Int A-2, Int B-1, Int C-1, Int D-2, Int E-2). Cases D and E in particular had an extensive consultative process from senior management and stakeholders of its various business units and divisions (Int D-2, Int E-1).

Limit qualitative measures for qualitative criteria and quantitative measures for quantitative criteria

This occurred for all case studies (Doc A-6, Doc B-7, Doc C-7, Doc D-8, Doc E-9). However, as discussed Case A concentrated more on qualitative measures for its evaluation criteria.

Assessing strategic fit, partnering potential and relationship dynamics (intangible criteria) should be supported by:

- available data and supporting commentary from project team
- commentary from the project team as to how the scoring and conclusions for these ‘intangible’ criteria were formed.

Cases B and D outsourcing project teams conducted a detailed review of strategic fit using a number of approaches including obtaining project team members assessing potential suppliers from a “good and bad feel” dimension according to Int B-2 (Doc B-7, Doc D-8). Case E’s project team evaluated the ability of the organisation to partner with the prospective supplier using a check list pertaining to “best fit” according to Int E-2. Cases A and C project teams did not consider strategic or partnering fit (Int A-1, Int C-2).

Adopt key risk issues identified from the business case and score key risk issues separately and ability of the supplier to mitigate these risks

All cases conducted some form of supplier risk assessment (Doc A-6, Doc B-7, Doc C-7, Doc D-8, Doc E-9). Cases D and E appeared the more detailed in assessing key risk issues based on their assessment of supplier risks and mitigation strategy analysis (Doc D-8, Doc E-9).

Ensure and continually monitor that the evaluation process is consistent, standardised and even handed

Case D's ethics and compliance officer monitored the evaluation process according to Int D-1. For cases B and E, the respective legal advisers monitoring the process assessed that the tender process was as specified in the tender documentation and any supporting correspondence forwarded to suppliers was complete and accurate (Int B-2, Int E-2). There is no evidence that for cases A and C there was any formal process monitoring process in terms of ethics (Int A-1, Int C-2).

Inhibitors

The selection of a successful tender is expected to be objective and incorporate a number of qualitative and quantitative measures. Of particular concern is the input of stakeholders and senior management. While all cases conducted to some extent an evaluation of the supplier responses using a variety of quantitative and qualitative evaluation techniques, cases A and C did not evaluate supplier strategic and partnering fit. An assessment of strategic and partnering fit is important to assess whether a partnering approach with a prospective supplier can be developed. It appears that the unsuccessful cases did not address strategic and partnering fit as part of the evaluation process.

Deliverables

Qualitative and quantitative techniques have been utilised in all cases to objectively score each response and thereby ensuring a more objective evaluation process. The scoring criteria, evaluation process and recommendation are able to be supported by an impartial, objective and ethical process. This appeared to be for all cases notwithstanding that cases A and C did not have an independent monitoring process as to tender integrity. In particular, case A was limited to mainly qualitative measures and scoring of evaluation criteria.

5.5.6 Communication strategy to be formulated to cater for management, business units and all stakeholders during the tender process

Communication is important throughout the outsourcing process. The framework requires that a suitable communication strategy is derived to cater for management and all stakeholders during the tender selection phase. Some tasks to achieve a proper communication strategy are:

Decide the most efficient and effective communication strategy taking into account the needs of the organisation and affected stakeholders during the tender process

Cases D and E adopted face to face meetings on a regular basis as the main communication strategy with affected stakeholders (Int D-2, Int E-2). This was due to the location of key stakeholders. Cases A, B and C adopted email and/or memorandum correspondence as the main communication mode with affected stakeholders during the tender process (Int A-1, Int B-2, Int C-3). This was largely due to many stakeholders being located throughout Australian eastern seaboard.

Consider the legal and legislative requirements of outsourcing arrangement especially in respect to staff

Cases A and D were subject to work place agreements and were required to keep staff up to date as to the timing of the tender process and the outsourcing process in general (Int A-2, Int D-2). Cases B and E considered their legal agreement with external stakeholders that required support from their external stakeholders for any initiative that could affect their business and accordingly regular updates on the outsourcing process had to be provided to all stakeholders (Int B-1, Doc B-8, Int E-2, Doc E-7). Case C appeared not to consider legal matters regarding staff (Int C-1).

Review timelines as to feasibility especially in respect to human resource time requirements based on feedback obtained during the tender process

Cases B, C, D and E continually reviewed the timelines based on tender feedback from suppliers and stakeholders (Int B-1, Int C-2, Int D-1, Int E-2). Case A outsourcing tender timeline slipped for a number of reasons to do with property division staff not fully cooperating with the project outsourcing team and therefore according to Int A-2, the tender process experienced “significant delays”.

Adopt appropriate communication strategies and utilise different technology (mail, internet, email, fax or face to face) to suit the profile and location of the stakeholder affected by the outsourcing process

Cases B, C, D and E utilised a number of technologies for its various stakeholders including email, face to face meetings and personal mail where communication

required individual contact to be made (Doc B-7, Doc C-6, Doc D-8, Doc E-9). Case A predominantly used email correspondence to affected stakeholders not located at the main office of the organisation (Int A-1).

Do not have a 'one fit all' communication strategy. Tailor the communication strategy to the needs of the various stakeholders affected by the outsourcing process

Apart from Case A where email was the main communication mode, the other case study organisations were flexible as to tailoring communication strategy to meet the needs of the various stakeholders, especially staff affected by outsourcing (Int A-1, Int B-2, Int C-1, Int D-2, Int E-1). Int D-2 stressed that using a variety of communication modes assisted in “dealing with different staff communication needs”.

Understand and deal with the level of uncertainty the announcement of an outsourcing process has on affected staff

Cases B, C, D and E handled its affected staff well and there was no apparent disquiet or antagonism from staff during the outsourcing process (Int B-2, Int C-1, Int D-2, Int E-1). Int A-1 mentioned that case A had issues with union involvement and staff antagonism to the outsourcing process. According to Int A-1, the organisation appeared “unable to deal with the fear among staff caused by outsourcing”.

Deal with the why, what, when and how questions of outsourcing to affected staff paying particular emphasis on what it means to them

Cases B, D and E handled these questions well with affected staff (Int B-1, Int D-2, Int E-1). Int B-1 believed that the secret was to “tell it how it was and tell it quickly and upfront”. Case C was able to handle most staff questions well with the exception of a number of staff related to its facility management operations and who was likely to stay or go (Int C-2). Case A did not handle staff questions or issues well as many of its staff had over 20 years experience and according to Int A-1, these staff thought they were left to “hang and dry”. In hindsight, Int A thought that the project team did not address the key questions in a timely and direct manner.

Inhibitors

Media speculation, rumours and misinformation can still spread despite the best efforts of the project team. Continual, timely and accurate information and disclosure to affected stakeholders is the best method to counter this. Overall, cases B, D and E handled staff issues well. Case C handled staff issues moderately well and Case A did not handle staff issues well at all.

Deliverables

A communication strategy and policy formulated to inform affected stakeholders on a timely basis during the tender process. Various modes of communication were required. A proper communication strategy was evident for cases B, D and E. Case C's communication strategy was deemed to be reasonable and case A's communication strategy was deemed to be inadequate.

5.5.7 Internal review and audit of the supplier responses as to risk factors to consider or mitigate during later phases

Independent review of supplier responses is deemed by the framework as important to independently review risks that have come to light as part of the tender process. The tasks to review these risks identified in the tender process are:

Engage internal audit review of risk issues highlighted from the feedback obtained from the tender responses

Case D engaged its internal audit review team to comment on risk issues and supplier feedback from the tender (Int D-1, Doc D-7). Cases B and E utilised the services of its external accountants in the risk review process of tender responses (Int B-1, Int E-2). Cases A and C did not engage its internal audit team, although the internal audit team for case A reviewed the tender process and responses during the transition phase (Int A-1, Int C-1). Int A-1 commented that the internal audit review was "scathing" in its criticism of the project team for not evaluating risks identified during the tender process.

Consider the acceptability of risk issues and mitigation strategies pertaining to assets, files, documentation, integrity of supplier systems

For all cases this was conducted as part of the supplier response review although not to the same extent (Doc A-6, Doc B-7, Doc C-8, Doc D-7, Doc E-9). Int B-2 commented that risk issues pertaining to file transfers (paper and system) were considered. Int D-1 remarked that "substantial risk analysis" was performed on system compatibility issues and Int E-2 stated case E focused on the supplier's systems access and security given the requirement for external stakeholders to access the supplier's systems as required.

Determine action to mitigate risk issue based on audit review and recommendation

Cases B and D identified a number of risks and defined an action plan to deal with possible system problems and interface issues between its systems and those of a prospective supplier (Doc B-8, Doc D-7). Case E assessed potential service delivery risks in facilities management services and considered a number of approaches to work with the supplier and stakeholder in regional locations (Doc E-9). Cases A and C

did not have an audit review of tender responses and obtain audit signoff to potential risks identified from the tender responses (Int A-3, Int C-2).

Inhibitors

Not all risks may be identified by the project team and accordingly independent review of risk issues by an internal audit team or external accountant may assist. The tender responses will not necessarily identify all risks (potential or perceived) and therefore not all risks are assessed by independent or auditor review. For cases B, D and E there was independent review of risks and mitigation strategies. Cases A and C did not conduct an independent external accountant or internal auditor review of the tender information obtained from the suppliers.

Deliverables

An auditor or external accountant response, recommendation and proposed action plans on risks detected from the tender responses was provided to the project team in cases B, D and E. The auditor views on the materiality of the risks identified need to be considered by the project team and senior management. All cases with the exception of cases A and C had clear direction on the materiality of risks identified from the supplier responses.

5.5.8 Adopt a structured tender response verification and supplier reference checking process

Supplier reference checks add to the objective assessment of supplier responses and are an important part of the tender phase of the outsourcing process. Some ways to enhance this according to the framework are:

Take into account privacy and trade practices legislation when conducting reference checks at supplier's client premises

This occurred for all cases where reference checks took place. Suppliers requested each organisation to execute a confidentiality agreement before allowing reference checks at their client's premises (Int B-2, Int C-2, Int D-1, Int E-2). Int A-2 stated that that no formal reference checking was performed at the supplier client's premises but "several phone conferences were arranged with clients suggested by the supplier".

Conduct reference checks at location of supplier's current clients without supplier presence if possible

Case B and E conducted the most detailed reference checks (Int B-2, Int E-1). Case D utilised its own local government network contacts to check references of prospective suppliers and met with representatives of councils utilising real outsourcing services

with the prospective supplier (Int D-2). Cases A and C performed the least amount of reference checks compared to the successful cases (Int A-1, Int C-2).

Conduct a verification review on responses by supplier to critical matters and ask for evidence on assertions made where the evidence is not supplied as part of the response

Cases B, C, D and E performed this task on a number of supplier responses to their tender (Doc B-7, Doc C-8, Doc D-9, Doc E-8). Case A only did this for only two of the tender parties that it thought would have a chance to win (Int A-2). The other four case studies performed a verification review for all suppliers that participated in the tender process. Int D-2 and Int E-1 confirmed that for their respective tender all supplier assertions on client profile, technology capabilities and facility management activity were checked and evidence requested as relevant. Int B-2 stated that for case B, key assertions made by prospective suppliers on general outsourcing experience, system performance and profile of leasing and sales history were further examined.

Verify as much as possible using source data and information conducted in a live outsourcing environment as to supplier's system capability

Cases B and E ran test data on the prospective supplier's system (Doc B-8, Int B-2, Doc E-8, Int E-2). Case D provided test data and a number of files for suppliers to run on their system, report on and provide sample reports (Doc D-9). Case E asked each supplier to provide sample report formats consistent with its multi level reporting needs to its stakeholders and external franchisees (Int E-2). Cases A and C did not conduct any supplier system testing or require the supplier to run test reports, except for Case C that had prospective suppliers provide a detailed log of all screens and reports provided by the supplier's system and compared the reports and screens to its inhouse system (Int A-1, Int C-2).

Assess and detail clearly areas of service and track record in delivering outcomes to other clients

This occurred for all cases and all suppliers provided detailed responses on their track record in outsourcing real estate (Doc A-7, Doc B-8, Doc C-7, Doc D-8, Doc E-9). Case A as discussed by Int A-1 limited this to only two of the prospective suppliers.

Perform on supplier systems trial runs using organisational sample data to review supplier system processes, system integrity and outputs

Cases B, D and E conducted these trial runs (Doc B-8, Doc D-8, Doc E-9). Case A and C did not perform trial runs on prospective supplier systems (Int A-1, Int C-2).

Reassess risk issues in the light of information obtained in the structured and reference checking process

From the trial runs and reference checking issues, cases B, D and E identified systems and operational changes required to implement the outsourcing arrangement (Int B-1, Int D-2, Int E-2). Case A identified some required hardware and software upgrades to work with the supplier's systems (Int A-2). Case C considered from the system screen reports provided by suppliers that there would need to be some major report reformatting for the information to be usable according to organisation C (Int C-2).

Inhibitors

System interfaces between supplier and organisation may be incompatible and therefore may require modification. It is important that the tender phase provides for some system testing. The testing of data on supplier systems may be time consuming and require significant resources. Cases B, D and E assessed system compatibility, file transfer and other system issues. Cases A and C predominantly reviewed supplier sample reports and other supplier system information without conducting any system testing.

Deliverables

The tender process requires that references are checked and supplier assertions in tender responses verified. It is expected that visits to the supplier clients' premises are conducted for purposes of reference checking. This occurred for cases B, D and E. Cases A and C did not appear to conduct supplier reference checking or verification of supplier assertions to the same extent as the other three cases.

5.5.9 Service delivery expectations and performance standards to be clear and precise in tender documentation

The framework provides that suppliers need to know what is expected of them in delivering real estate outsourcing services. The tasks to do this are:

Ensuring prospective suppliers understand that service delivery expectations and performance standards have been accepted by senior management with input by stakeholders.

All cases had articulated service delivery expectations. Cases B, D and E were more detailed and clearly identified expectations. The service delivery expectations for cases A in particular and C to a lesser extent were more general in nature. Similarly there was less stakeholder and senior management input into the setting of service standards for cases A and C (Int A-2, Int C-2). Only cases B, D and E had

performance standards accepted by senior management with input by stakeholders (Doc B-8, Doc D-9, Doc E-9).

Producing tender documentation that has clear delivery expectations and performance standards

The successful cases studies appear to have met this task (Doc B-8, Doc D-9, Doc E-8). However, it appears that the tender documentation for cases A and C are not as defined as to delivery standards and performance standards compared to the other cases (Int A-2, Int C-1).

Detailing the broad scope, aims and objectives of the outsourcing arrangement and the performance and service delivery standards required to meet these standards

Cases B, D and E tied the broad scope, aims and objectives of the outsourcing arrangement to performance and service delivery standards (Int B-2, Int D-3, Int E-2). The tender documentation for case D is specific in that it lists all the outsourcing tender objectives and aims and the service delivery standard required to meet these objectives and aims (Doc D-7, Int D-2).

Adopting in the tender documentation recognisable industry terms

Four cases studies adopted recognisable industry terms in the tender documentation (Doc B-8, Doc C-6, Doc D-9, Doc E-8). Case A tender documentation used a number of terms and acronyms that were not industry standard, for example it used the word 'premises' to describe occupied and unoccupied property where the industry terms occupied and vacant property would be a better description and terms used in the other cases. According to Int A-1, many suppliers were "confused" by the presentation of information particularly as to the "level of vacant properties held by the organisation".

Defining clearly those terms which are not easily recognisable such as organisation terms and acronyms using a glossary as part of the tender documentation

Four case studies (B, C, D and E) appear to have met this task (Doc B-8, Doc C-6, Doc D-9, Doc E-8). Case A tender documentation was littered with many acronyms and not all were defined in the tender documentation. For example the letters 'PBC' referred to Premium Banking Centres but was not defined in the tender documentation (Doc A-6).

Specifying clearly the quantitative measures and tolerance limits to be utilised in any outsourcing arrangement

All case studies appear to have met this task (Doc A-7, Doc B-8, Doc D-9, Doc E-8). Cases B, D and E were more detailed in terms of disclosing tolerance limits whereas Case A according to Int A-1 was more general in describing the quantitative measures and tolerance limits given the majority of its performance criteria was defined in

qualitative terms. Int C-1 mentioned that the business units wanted “discretion” in approving lease deals and accordingly the supplier was to be given “a plus or minus 5% negotiation range for new lease transactions”. Other similar tolerance limits were defined in the case C tender document.

Outlining qualitative measures proposed to be used in measuring service delivery and performance standards

All case studies appear to have met this task (Doc A-7, Doc B-8, Doc C-6, Doc D-9, Doc E-8).

Highlighting separately legislative requirements and business imperatives that must be met as part of the outsourcing engagement

Four case studies appear to have met this task to varying degrees (Doc A-7, Doc B-8, Doc D-9, Doc E-8). Cases A, B, D and E outlined in the tender documentation all the relevant legislation that may apply to the proposed outsourcing arrangement and that the supplier would need to take into account.

Linking performance standards and service delivery requirements to clearly specified rewards and penalties

Cases B, C, D and E within the tender documentation devoted a separate section on rewards and penalties (Doc B-8, Doc C-7, Doc D-9, Doc E-8). For cases B, C, D and E the approach was to present a ‘risk reward’ table approach where the performance standard and proposed penalty or reward was presented side by side so a supplier could assess the reward or penalty of meeting or not meeting a service standard (Doc B-8, Doc C-7, Doc D-9, Doc E-8). Case A’s approach was less structured and performance rewards and service standards were presented in separate sections in the tender documentation and presented in general terms only (Doc A-7).

Inhibitors

A tender document can assist prospective suppliers understand service requirements and associated performance rewards and penalties. This is not an easy task and if not done correctly may mislead the supplier in respect to required service standards. Cases B, C, D and E approached this in a systematic manner and the tender documentation provided clear guidelines to the suppliers as to performance standards and risk and reward criteria. Case A did not present its required performance standards or rewards in an easy to understand manner in the tender documentation.

Deliverables

A proper and easy to follow tender document that outlines service delivery standards with associated rewards and penalties was implemented for cases B, C, D and E.

Case A's approach to specifying rewards and penalties for service standards was not as clearly set out in the tender documentation.

5.5.10 Address audit concerns based on supplier responses to the tender process

The framework requires a comprehensive risk assessment process to deal with risks identified during the tender process. This is assisted by performance of the following tasks:

Assess if the tender process has highlighted any new risk issues from those identified in phase 1

Case A considered that supplier expertise and experience for major sales and leasing transactions was limited (Int A-1). This was a view held by Int C-2 for case C and in addition he was concerned about quality of supplier staffing in some prospective supplier's Queensland offices. Case D considered that the cost of enhancement to its own system to cater for supplier interfaces would be greater than first expected (Int D-2). Case B was concerned that project management expertise for many suppliers was not to a desired standard (Int B-2). Case E considered many supplier systems to be limited in handling and reporting on multi party interests in a property where these interests comprised freehold owners, lessees, corporate store managers, franchisee operators, shopping centre managers and where relevant body corporate plan managers that was typical for their stores (Int E-2).

Assess risk mitigation strategies for any new risk issue identified

Mitigation strategies for risks identified in the tender process were considered in all cases. Case A considered keeping major lease and sales transactions under the control of its property division staff (Int A-1). Int C-2 stated that for case C additional property division resources were needed in Queensland and perhaps then after a period of time transferred to the supplier. Case B would nominate its preferred contractors so the supplier would work with fitout contractors known to Case B (Int B-2). Int D-2 commented that Case D's information system department considered other ways of capturing data from the supplier's system without requiring major upgrades to the case Ds systems. Case E identified that many supplier database systems struggled with stores that had external owners and occupiers of stores. Int E-1 believed that the most optimal risk mitigation strategy was to split the stores into distinct categories being corporate stores – owned and leased and franchise stores owned, leased and occupied. While this may create some duplication of reporting and data entry, the supplier would be able to create a separate database for each type and therefore

simplify having to create a system to deal with all types of property categories operated by organisation E.

Quantify the risk in terms of materiality and business continuity issues

Cases A, D and E identified the risks identified in the tender as material (Doc A-7, Doc D-8, Doc E-9). Cases B and C considered the risks identified in the tender to be of concern but not material (Doc B-9, Doc C-8). None of the cases identified any of the risks assessed from the tender process as being able to affect business continuity (Int A-1, Int B-2, Int C-2, Int D-1, Int E-2).

Assess if the original objectives, drivers and aims set in the business case still achievable in the light of the new risks or other matters identified as a result of the tender process

None of the cases assessed a need to alter the original objectives, aims and drivers in the light of any new risks or other matters identified as a result of the tender process (Int A-1, Int B-2, Int C-2, Int D-1, Int E-2).

Assess the risk to assets, files and continuity of business

None of the cases assessed the risks discovered in the tender process to materially impact on organisational assets, files or otherwise impact on business continuity. Case D considered the risk to be able to be mitigated but not material (Int D-1).

Engage an independent party such as an auditor or suitably qualified project team member to review and comment on these new risks identified

Cases B, D and E obtained independent review of risks and risk mitigation strategies (Int B-1, Int D-2, Int E-2). Cases A and C did not obtain independent review and comment on the risks identified in the tender process. Infact, the internal auditors of organisation A wrote to the project team leader at the start of the transition stage critical of the way risks were assessed (Doc A-9). Similarly, Case C considered that independent review of tender risks was not needed given the “expertise” of the project team according to Int C-2.

Assess from the auditor report if the risk identified is of such magnitude to affect or terminate the outsourcing process going forward

Auditor or external accountant reports for cases B, D and E did not consider any of the risks uncovered during the tender process to be of any standing that would cause the abandonment of the outsourcing process (Doc B-8, Doc D-9, Doc E-10). Cases A and C did not perform any risk analysis during the tender process.

Inhibitors

Not all risks can be detected during the tender process. Accordingly the focus is on detecting material or substantive risks from outsourcing. These material risks can adversely impact on outsourcing success and need to be detected early in the outsourcing process. In addition, independent review of risks and mitigation strategies assist in maintaining an objective review of risks and mitigation strategies. Cases B, D and E engaged independent audit assistance to address risk and mitigation strategies. Cases A and C did not.

Deliverables

A risk assessment analysis and mitigation strategy has been completed with the assistance of an independent party such as an auditor or external accountant and utilised to assess the materiality of overall risk from outsourcing. This occurred for cases B, D and E but not for cases A and C.

5.5.11 Adopt a 'win-win' approach to negotiations during the tender process

The framework provides for a win-win approach to negotiations to start off a prospective relationship on the right basis and otherwise promote an optimal relationship between the supplier and organisation. Certain strategies in the framework to achieve a win-win outcome are outlined as follows:

Adopt a negotiation strategy that builds trust and rapport

Cases A and C focused largely on cost issues and tender price in their negotiations (Int A-1, Int C-1). This created often tense and terse negotiations with prospective suppliers (Int A-1, Int C-1). Supp A-1 commented that organisation A seemed to be "only interested in its part of the deal at the exclusion of what the supplier wanted". Similarly Supp C -1 believed that the negotiation style adopted by the case C project team at time positioned the supplier in a "very limited and condescending manner". Both Int A-2 and Int C-1 considered that the respective negotiations were not cordial. On the other hand, cases B, D and E negotiated on other matters apart from cost (Int B-2, Int D-1, Int E-2). Correspondence exchanged with suppliers indicate that service standards, business growth and technology matters were other issues among many discussed and negotiated with suppliers for cases B, D and E (Doc B-9, Doc D-10, Doc E-11). The respective view of Int B-2, Int C-2 and Int D-1 was that their negotiations with suppliers were cordial.

Decide who will negotiate from the project team on behalf of the organisation

For some reason, cases A and C had its senior manager and project leader negotiating with the supplier. Int A-2 confirmed that the Head of Property and the outsourcing

project team leader were involved in the negotiations. Similarly, Int C-1 mentioned that the General Manager Property and the project team leader were involved in the negotiations. For cases B, D and E only the project team leader was involved in the negotiations with prospective suppliers (Int B-1, Int D-2, Int E-1). Int D-2 considered that having one person as the chief negotiator eliminated “confusion and conflict” by having more than one person negotiating.

Adopt a ‘win win’ approach in form and substance. This is achieved by:

Encouraging consensus not argument

Cases B, D and E encouraged more open discussion with suppliers than cases A and C (Doc B-7, Doc D-9, Doc E-9, Int B-1, Int D-2, Int E-1). Supp A-2 lamented that organisation A was not forthcoming on property asset sale information and felt that some persons in organisation A were “disrespectful as to their track record in major property sales”. Int A-2 confirmed that when there are significant numbers of internal property staff opposed to outsourcing “the likelihood of argument with prospective suppliers is high”. Int C-1 stated that the larger business units “feared losing control over site selection” and opposed much of what was proposed by prospective suppliers in taking over the site selection process.

Not sweating over the small stuff

Supp C-2 stated that organisation C had many “rules” as to what a supplier could do and not do. For example, any supplier was prevented from using the organisation C logo in any property sale advertising. For Supp C-2, this appeared petty and did not assist in building rapport with organisation C. There was no evidence of such behaviour in cases A, B, D and E (Int A-2, Int B-2, Int D-2, Int E-1).

Demonstrating a desire for risk/reward sharing

The focus of negotiations for cases B, D and E concerned risk and reward sharing as part of the overall negotiations. These cases had some form of risk/reward table in their tender documentation (Doc B-1, Doc B-9, Doc D-1, Doc D-10, Doc E-1, Doc E-9). Case A had little in the way of risk and reward sharing outlined in its tender documentation. In addition organisation A did not demonstrate a desire for risk reward sharing when its contract and tender documentation are taken into account. There was no risk sharing table and the supplier was not given any tolerances in the meeting of performance standards in the outsourcing contract (Doc A-1, Doc A-9). Case C was more rigid in setting risk and reward sharing parameters and had narrower tolerance levels than the other cases (Doc C-1, Doc C-8).

Engage in open transparent and timely disclosure

The negotiations in all cases were conducted in an open and transparent manner for the successful cases studies and this was confirmed by the respective suppliers for each of the cases studies (Supp B-1, Supp D-1, Supp E-1).

Apart from case A, all cases conducted the negotiations in a timely manner and provided timely disclosure. Supp A-1 commented that organisation A did not meet its stated timeline of getting back to you with information or answers to requisitions raised by supplier A.

Adopting plain English contract drafting of documentation

All cases adopted plain English contract drafting of documentation (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1).

Allowing within appropriate limits some tolerance, give and take in meeting service standards and performance criteria

With the exception of case A and to a lesser extent case C, cases B, D and E set tolerances in meeting service standards and performance criteria and adopted a give and take approach (Doc B-1, Doc D-1, Doc E-1).

Having a proper, fair and ethical reward and penalty regime that is designed to focus on key outsourcing objectives, aims and drivers and not the small stuff

Cases B, D and E encouraged a reward and penalty regime with suppliers in the way it drafted its contract and tender documentation. Rewards and penalties were clearly outlined in the relevant section of their respective contracts. Case B categorised its rewards for service performance in priority order so that a supplier could focus on delivering what was important according to Int B-2. Similarly Int D-2 referred to the organisation's service charter when outlining performance standards and rewards in the tender documentation. Int E-1 stated that case E's reward regime focused on encouraging the supplier to meet project management targets for opening new sites. Case A did not present easy to read and understand reward and performance guidelines in the tender documentation. Essentially the reward and penalties were difficult to interpret and Supp A-1 considered that "literally read the standards required for lease cost management would be difficult to achieve". Supp A-1 lamented that rewards for negotiating rentals downward is not easy as the process can take months to conclude if the matter goes to rental determination. Case C set the bar quite high in terms of cost savings and rewards were derived from the higher base set for property base costs in the contract and as adjusted according to Int D-1. Supp C-1 considered the reward regime unfair because many of the retail properties were rented at lower than market rentals given the sale and leaseback program some three years earlier.

Accordingly, the likelihood was that the rentals would rise once the first opportunity for a rent review occurred. This worked against the supplier according to Supp C-1.

Tolerance setting, grace periods for difficult service delivery targets and not creating an in scope/out of scope approach to all aspects of the outsourcing contract

Supp A-1 and Int A-2 confirmed that the negotiations for case A were conducted on the basis of the supplier and organisation arguing about what is in scope and what is out of scope in the outsourcing contract. Int A-2 and Supp A-1 believed that the focus on cost of the outsourcing contract and cost reduction created this approach as the supplier attempted to limit its services.

Cases B, C, D and E had defined tolerances grace periods in the contract for service performance by the supplier (Doc B-1, Doc C-1, Doc D-1, Doc E-1).

Allowing flexibility and ability for contract variation and renegotiation

While all five cases had general provisions allowing for ability to vary the contract and renegotiate terms, Supp A-1 lamented that for case A, the provision was “heavily weighted to organisation A” and that specifically prohibited the supplier asking for a review where work volumes required additional resources. Case D had the most detailed contract variation and renegotiation process where either party could ask for a review at any time as part of the dispute resolution process (Doc D-6).

Inhibitors

A difficult and one sided negotiation process encourages discontent between supplier and organisation. Engaging in a ‘win-win’ negotiation outcome requires a like minded approach between supplier and organisation. Cases B, D and E proceeded on the basis of a win-win approach to negotiations with the supplier. Of particular importance is the flexibility of cases B, D and E to provide for proper contract variation and renegotiation rights as part of the arrangement. The stance on rewards and penalties and focus on cost adversely impacted on the ability of cases A and C to conduct a win win negotiation process.

Deliverables

A negotiation outcome that has created a partnering and alliance approach between supplier and organisation and the contracted outcomes are deemed fair and reasonable for both parties. This occurred for cases B, D and E and to a lesser extent for case C.

5.5.12 Timeliness and ethical behaviour in making and advising decision to suppliers

The framework provides for timely and ethical behaviour in conducting the tender process and negotiations up to the point of awarding the tender. Maintenance of supplier interest and competitive tension is enhanced by the following tasks:

Monitor and take action to ensure that the outsourcing process is in line with timetable advised to suppliers

Case A was unable to maintain its stated timetable to suppliers and did not formally extend the date with suppliers (Supp A-1, Int A-2). Int A-2 commented that “difficulties with obtaining the cooperation of various property division staff and senior management inability to deal with these blockages as a major cause of delays”. Case C extended the timetable once but then maintained the revised date (Supp C-2, Int C-3, Doc C-7). Cases B, D and E maintained their initial stated tender and negotiation timetable within 2 to 3 days of the stated tender proposed timetable (Int B-2, Int D-1, Int E-2).

Ensure delays and other variations to the outsourcing program are communicated to suppliers in a timely manner

Supp A-1 confirmed that organisation A did not communicate to suppliers any delays or variations to the outsourcing program and according to him, “suppliers were left hanging without any communication”. Case C communicated delays and variation of time to suppliers, however Int C-2 stated that some suppliers completed their submission on the original timetable and would have liked more time had they known the timetable was to be extended. There appeared no such problems for cases B, D and E where the original tender timelines were largely kept with suppliers (Int B-1, Int D-2, Int E-3).

Manage media exposure and scrutiny to minimise reputation risk

There was little media exposure for cases B, D and E apart from some trade journal commentary for cases B and E and a report in the local newspaper for Case E (Int B-2, Int D-1, Int E-2). Conversely, due to their public company status, there was more publicity and media scrutiny for cases A and C in the Australian Financial Review (Int A-1, Doc A-7, Int C-2, Doc C-6). The media reports for case A were more extensive but apart from some inaccurate reporting on the suppliers that were shortlisted, there were no reputational risk issues for case A to address (Int A-1). Similarly, there was some minor media publicity at the outset but no major media scrutiny for case C (Int C-2).

Utilise a compliance or ethics officer to monitor the process and report on breaches or ethical issues to the project team leader

Case D had a compliance and ethics officer appointed to oversee the tender process meetings with suppliers (Doc D-9) and report to the Divisional Director in addition to the project team leader. Int D-2 saw the advantage of an ethics officer as “having a fully documented tender process and independent person attending supplier briefings and meetings”. The ethics officer was required to advise on disclosing information about one of the prospective suppliers to other suppliers as part of a tender information document prepared for case D tender (Int D-2). Cases B, D and E had its compliance officer or legal advisors as relevant to overview the tender process and take minutes for supplier meetings (Doc B-6, Doc E-9). Case A did not have an ethics officer nor use its internal legal adviser to monitor the tender process (Int A-1).

Provide a forum that is accessible and open to all suppliers and all suppliers are treated equally and fairly in their ability to participate and provide feedback

For cases B, D and E, questions asked by a supplier were collated and answers circulated to all suppliers participating in the tender (Int B-1, Int D-2, Int E-1). Cases B, D and E required all questions to be forwarded to an email address set up for tender (Int B-1, Int D-2, Int E-1). Case A did not release details of questions received from a supplier to other suppliers (Int A-2). Similarly, Case C did not as a rule release supplier questions to the broader group (Int C-2). Supp E-1 considered that release of other supplier questions as “assisting the tender process” for case E. The supplier response and feedback process adopted by cases A and C was less structured then for the other cases (Int A-1, Int C-2). Case D maintained a detailed supplier communications register according to Int D-1.

Obtain signoff from the nominated compliance officer or other responsible party to the tender and selection process has been conducted in an ethical manner

Case D obtained signoff from its compliance officer (Doc D-9). Cases B and E obtained signoff from their respective legal officers (Doc B-8, Doc E-9) that the tender process had been completed in an ethical manner. Notwithstanding case C utilised their legal adviser to overview the tender process, a formal compliance signoff from the legal officer was not received (Int C-2). Case A did not obtain a signoff from any legal or compliance officer.

Inhibitors

A timetable which is out of control impacts on supplier confidence to the tender process. Timelines are not always under the control of the project team as there will be unforeseen factors. However, the project team should keep the prospective suppliers

informed of delays or variations in the timetable. This occurred in all cases with the exception of case A. The tender process requires a high standard of ethical behaviour. Compliance and ethics monitoring was utilised in cases B, D and E and to some extent in case C.

Deliverables

The timelines are monitored continually, delays advised to all affected parties. The compliance and ethical policy in respect to probity of the tender process is monitored continually to ensure it is consistently being applied throughout the tender process. Cases B, D and E kept its timelines and monitored the compliance and ethics of the tender process in a more structured manner than cases A and C.

5.5.13 Simple plain English worded contract specifying contract terms and conditions in a clear manner

The framework provides for a clear, plain English contract that ensures that when the contract goes live there is no confusion between supplier and organisation. The contract needs to address many of the same factors considered in phases 1 and 2 to ensure contract integrity. Contract integrity is established by the following tasks:

Establish outsourcing contract terms in plain English and in clear and concise terms

All cases adopted a plain English format in respect to the outsourcing contract (Doc A-1, Doc B-1, Doc C-1, Doc D-1 and Doc E-1).

Outline outsourcing scope and objectives clearly and upfront in the contract

Cases B, D and E had a separate section within the initial part of the outsourcing contract devoted to outsourcing scope and objectives (Doc B-1, Doc D-1, Doc E-1). Case C provided a background appendix attached to the core contract that outlined the proposed scope and background to outsourcing (Doc C-1). Case A had a covering letter attached with the contract that detailed the background to proceeding with outsourcing and this letter was attached to the sample contract offered to tender parties (Doc A-1, Doc A-6).

Detail service delivery and performance standards within the contract

All cases detailed service delivery and performance standards in the contract (Doc A-1, Doc B-1, Doc C-1, Doc D-1 and Doc E-1). Cases A and C detailed service delivery and performance standards in appendices to the core contract (Doc A-1, Doc E-1).

Identify and articulate partnering principles in the contract and especially how the arrangement proposes to achieve them

Case D articulated in the contract that the arrangement was to be run on a “true partnering approach and embodying partnership principles” (Doc D-1). Case B used the words “relationship building” throughout the contract when referring to the supplier and organisation working together (Doc B-1). Case E used according to Int E-1 the words such as “partnering, open and transparent arrangement” when referring to the nature of arrangement it desired with the supplier. On the other hand, the word partner, alliance or relationship was not used at all in the contracts of cases A and C (Doc A-1, Doc C-1).

Outline information gaps in the information provided

Int A-1 believed that despite organisation A having known information gaps in its tender information, this was not communicated to suppliers. Supp B-2 commented that the information provided by organisation B on external lease arrangements in the name of third parties was “obviously not complete”. None of the other cases appeared to outline information gaps in the information provided to tender parties.

Specify clearly monetary values in contract including performance bonuses expressed in terms of a base and a performance component

All cases required the contract monetary sum to have a defined base cost. Performance bonuses were expressed differently for each of the cases. Case A adopted a formula approach in respect to performance bonuses (Doc A-1). Supp A-1 and Int A-2 both commented that the formula was complex and could be interpreted in many ways. Cases B, C and E provided for a specific percentage over the base contract value as its performance component subject to certain conditions being met (Doc B-1, Doc C-1, Doc E-1). Case D had an automatic percentage increase to the contract base amount as its performance bonus approach. This was subject to the contract not being in “dispute resolution” (Int D-2, Doc D-1).

Avoid convoluted or complex monetary payment formulas or approaches

Case A had a complex formula for deriving the annual base and performance component where the base contract amount could decrease due to a number of set offs and adjustments (Doc A-1). The other cases did not adopt a formula approach to setting the base or performance component of the contract.

Outline proposed payment escalation process

With the exception of case A, all other cases had a defined percentage increase for the base contract value (Doc B-1, Doc C-1, Doc D-1, Doc E-1)

Highlight dispute resolution procedures

Dispute resolution was highlighted in the contract for all cases (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1).

Clearly specify rewards, penalties and variation rights to the contract

All cases had rewards, penalties and variation rights outlined in the contract (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1).

Impose a termination process regime within the contract specifying termination events, rights and obligations of each party

All cases had a contract termination process in the contract (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1).

Derive a risk and reward sharing table and incorporate in the contract

Cases B, D and E had a risk and reward sharing table or otherwise a listing of which risks and rewards belonged to either supplier or organisation (Doc B-1, Doc D-1, Doc E-2). Case C did not have a risk and reward sharing table in the contract (Doc C-1). Similarly, Case A framed its contract on the basis of supplier risk for service delivery and the contract did not provide for any risk belonging to the organisation (Doc A-1).

Review overall all terms and conditions to ensure that the contract allows for true reward and risk sharing

This did not apply to case A and C that did not have true reward and risk sharing in the contract. The other cases had contracts that embodied risk and reward sharing principles as part of the contract terms and conditions (Doc B-1, Doc D-1, Doc E-1).

Define definitions of key terms as a glossary to the contract

All contracts defined key terms within the body of the contract or in appendix to the contract. (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1)

Inhibitors

Poorly framed outsourcing contract terms and conditions can impact on the feasibility of the outsourcing arrangement. There is no standard contract template that can be used for all outsourcing contracts. Typically outsourcing contracts are tailored to the individual circumstances of the outsourcing arrangement. Contract formation can be time consuming and costly exercise. All cases completed a valid and legal contract. However, cases B, D and E incorporated partnering and alliance principles. In addition, cases B, D and E adopted clearer base and performance bonus terms and conditions in their respective contracts.

Deliverables

A plain English contractual documentation is created that can be understood by all and interpreted in the same manner by the parties. All cases delivered a workable outsourcing contract, except cases B, D and E structured their respective contract on partnering and alliance principles.

5.5.14 Focus on risk/reward sharing and rewards for bettering set performance standards in the outsourcing contracts

Supplier incentives for exceeding service delivery standards are valued in the framework as being able to maximise outsourcing performance. Supplier performance can be improved by focusing on the following tasks to enhance risk/reward conditions in the outsourcing contract:

Derive a suitable risk/reward table concerned with specification and allocation of risks between supplier and organisation

Cases B, D and E had a risk/reward sharing table or otherwise detailed clearly the risks and rewards pertaining to supplier or organisation throughout the contract term (Doc B-1, Doc D-1, Doc E-1). Case C largely allocated risks to the supplier with the exception of legislation changes where organisation C was responsible for system changes costs (Doc C-1). Case A's contract was heavily one sided and framed with virtually all risks to be borne by the supplier (Doc A-1). Int A-2 commented that the contract was one sided and largely framed so given the supplier's desire to "have a name financial services firm on its books" and accepted that the organisation would not want to share any risks with the supplier.

Specify performance standards clearly – choose suitable measurement metrics, achievable standards and measurement criteria

Apart from case A that had its performance standards framed in general terms, the other cases had specific measures to required performance standards in the contract (Doc B-1, Doc C-1, Doc D-1, Doc E-1).

Ensure performance standards consistent with scope, aims and objectives of the outsourcing arrangements

This was the case for all five cases (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1).

Set suitable rewards for achieving above performance standards set – hurdle to achieve rewards to be neither too easy nor too difficult

For cases B, C, D and E, performance standards were set in clear terms and both supplier and organisation deemed the performance standards to be fairly set (Int B-2,

Supp B-1, Int C-1, Supp C-2, Int D-1, Supp D-2, Int E-1, Supp E-1). Case A had a convoluted formula which Supp A-1 described as “totally unworkable because it was difficult to interpret and compromised because the base contract amount could vary from year to year”. He called the performance bonus provisions in the contract for case A as a “total waste of space”.

Ascertain that the risk / reward sharing regime is set fairly and equitably

Cases B, D and E had a risk/reward sharing regime embodied in the contract that both supplier and organisation had considered fair and equitable (Supp B-1, Int B-2, Supp D-2, Int D-1, Supp E-1, Int E-2). This did not hold for cases A and C where the contract was weighed heavily in the organisation’s favour and risk and reward sharing was not considered (Doc A-1, Doc C-1).

Assess if any future legislative changes and/or non foreseeable events causing upward pressure on work loads to do not penalise the supplier

Cases C and D had specific provisions for legislative changes in the contract and monetary compensation for legislative changes that may impact on the supplier costs of delivery of services (Doc C-1, Doc D-1). The other cases did not assess any future events or possible legislative changes that may impact on the supplier when framing the outsourcing contract (Int A-1, Int B-2, Int E-1).

Assess the suitability of return to the supplier under the contract

The discussions with suppliers and organisation representatives for cases B, C, D and E would indicate that the base contract value provided a suitable return to the supplier (Supp B-2, Int B-1, Supp C-1, Int C-1, Supp D-2, Int D-1, Supp E-1, Supp E-2). However this is not true for case A. Supp A-1 remarked that the contract base value was set below what should have been the case and the performance bonuses were “set at unrealistic levels” and therefore the poorly set base contract value was not compensated by performance bonuses.

Allow for negotiation to the risk and reward sharing regime, it is not a precise art

Negotiations were more amicable and productive in terms of risk and reward for cases B, D and E (Supp B-1, Int B-2, Supp D-2, Int D-1, Supp E-2, Int E-1). Case A negotiations ignored risk and reward sharing (Supp A-1, Int A-2). Similarly case C had virtually no risk and reward sharing discussions except for legislative changes (Supp C-2, Int C-1).

Define non negotiable risk boundaries that supplier has to meet or be liable for

All cases had clear and defined provisions in the contract that placed on the onus for risk back on the supplier (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1).

Set performance bonuses and rewards using proper metrics and evaluation criteria, agree upfront with supplier, avoid leaving open ended or unresolved in the contract

Performance bonuses appear to have been set using defined percentage increases for case B, C, D and E. The performance bonus mechanism was clear and able to be understood for these cases (Doc B-1, Doc C-1, Doc D-1, Doc E-1). However for case A, the performance bonus and rewards mechanism was convoluted and difficult to understand. The performance bonuses and rewards were subject to adjustments and add backs where it was deemed that the organisation initiated the cost savings (Doc A-1). This approach according to Supp A-1 was “subjective and open to argument”.

Match performance reward to specific service standards and/or performance criteria

Cases B, D and E had performance rewards matched to specific service standards in the contract (Doc B-1, Doc D-1, Doc E-1). In these three cases, the specific service standard was set out with its matching performance criteria. Case C had a limited outline in the contract of specific service standards matched to performance criteria (Doc C-1). Case A did not present its service standards and associated performance reward criteria in detail or in some form of matched outline (Doc A-1).

Inhibitors

Contract cost is a significant inhibitor. However, the supplier needs to be compensated fairly to ensure that the supplier has sufficient incentive to perform a proper job. In addition, rewards should be provided for performance above set standards. For cases B, D and E, a proper balance between minimising cost of contract, paying a suitable base contract value and having a suitable performance bonus mechanism was in place. This was not the case for cases A and C.

Deliverables

The successful cases had a proper remuneration, performance bonus and reward mechanism matched to defined service standards. Case C had a proper remuneration and performance bonus structure but lacked in matching performance rewards to desired service standards. Case A lacked in all respects and the contract remuneration process provided for a difficult relationship with the supplier.

5.5.15 General considerations in drafting an outsourcing contract

The framework provides that drafting outsourcing contracts require a number of considerations to be taken in contract formation. These are outlined as follows:

Understanding that the contract is a legal document serving a number of other objectives apart from legal

Generally all cases approached the contract formation as a legal document first and foremost without considering other objectives. However, cases B and D provided significant information as an appendix to the core contract on detailed property analysis and organisation background. Supp B-2 remarked that the information provided in the contract about the organisation's structure, third party store owners and organisational reporting hierarchy would be "referred to many times" by his team.

Ensuring the contract is strong on corporate governance

Cases D and E contracts were strong on corporate governance principles in addition to standard contractual duties of care (Doc D-1, Doc E-1). Cases A, B and C had standard fiduciary duty clauses in the respective outsourcing contract (Doc A-1, Doc B-1, Doc C-1).

Ensuring the thrust of the document is to engender partnering

Cases B, D and E adopted strong partnering and/or alliance principles in their contract (Doc B-1, Doc D-1 and Doc E-1). Cases A and C had little in the way of partnering or alliance principles in their outsourcing contract (Doc A-1, Doc C-1).

Keeping in mind no template or draft of other contracts will serve the purpose for all outsourcing arrangements.

All cases had solicitors prepare contracts to meet their specific outsourcing arrangement and none of the contracts were based on any outsourcing template available in the marketplace (Int A-2, Int B-1, Int C-2, Int D-1, Int E-1).

The contract needs to provide for the fact that circumstances can change

All cases had contract variation provisions that were general in nature and allowed both supplier and organisation to initiate contract variation negotiations (Doc A-1, Doc B-1, Doc D-1, Doc E-1). Case C limited its contract variation provisions to "legislative changes" that caused the supplier to incur additional cost or additional resources were to be utilised (Doc C-1).

Ensuring that distinct sections in the contract focus specifically or contain details on a number of important criteria:

A review of the contract document (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1) for each of the cases indicates that the following criteria were met in contract drafting:

- Outsourcing objectives, aims and scope (Cases B, D and E)
- The organisations mission, values and drivers to outsourcing (Cases B, D and E)

- Services to be outsourced (Cases A, B, C, D and E)
- Services delivery and performance standards (Specific B, D and E, General A and C)
- Risk sharing table and/or risk/reward table (Cases B, D and E)
- Partnering principles – how to achieve partnering (Cases B, D and E)
- Continuous improvement (Cases B and D)
- Communication strategy (Cases A, B, C, D and E)
- Discretions and approval limits/process (Cases A, B, C, D and E)
- Dispute resolution regime (Cases A, B, C, D and E)
- Relationship management (Cases A, B, C, D and E)
- Corporate governance principles and ongoing compliance to statutory and legislative framework (Cases B, D and E and Case C for legislative changes)
- Pricing and reward principles with flexible provisions for variation subject to changing circumstances (Cases B, C, D and E)
- Termination and expiry principles (Cases A, B, C, D and E)
- Rights of each party at expiry (Cases A, B, C, D and E)
- Risk/reward sharing table (Cases B, D and E)

Inhibitors

The outsourcing contract is an important legal document and if not structured correctly could impose problems for supplier and organisation. In addition, the contract should espouse and encourage partnering and alliance building principles. All five cases produced legally enforceable contracts. However for cases A and C, the contracts did not engender alliance and partnership principles.

Deliverables

For cases B, D and E, the outsourcing contract met the requirements of being legally enforceable but also meeting some broader principles and objectives in assisting with the relationship between supplier and organisation. Conversely, the approach of organisations A and C was that the outsourcing contract is a legal document.

5.5.16 Contract penalties, termination provisions and contingencies are clearly defined in the contract

The framework provides that outsourcing contracts may end for a number of reasons in addition to expiry of the contract. Accordingly the framework requires that a number of contract termination principles are defined in the contract. The review of the contract documentation for each of the five cases identified the following in respect to contract termination:

Ensure termination provisions within the contract can take into account business continuity and deal with file and asset transfers as required

All five cases considered business continuity in their termination provisions (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1).

Ensure termination provisions have addressed risk and cost concerns by ensuring:

- Ability for organisation to terminate arrangement in an efficient and effective manner (Cases A, B, C, D and E)
- Risks issues in termination identified and how are they dealt with in contract (Cases B, D and E)
- Incentives or penalties imposed to cooperate in a termination scenario (Cases A, B, C, D and E)
- Penalties within a contract are:
 - Fair, equitable and properly defined (Cases A, B, C, D and E)
 - Designed to mirror accountabilities and responsibilities of the parties (Cases A, B, C, D and E)
 - A tool to reduce behaviour of supplier that increases risk in contract (Cases A, B, C, D and E, all cases had provisions which allowed the organisation to withhold payment of the final contract sums due until termination and handover to a new supplier was completed)
- Avoid penalties for small stuff, minor indiscretions (None of the cases had any limitations to termination provisions)

Inhibitors

Contract termination provides potential risk and additional cost to the organisation. Detailed and strong termination provisions are required in the contract so as to protect the organisation. Interestingly, this was one instance where all cases addressed this inhibitor in a satisfactory manner.

Deliverables

All five cases incorporated proper termination and expiry provisions in their respective outsourcing contract.

5.5.17 Communication of transition process to affected stakeholders within the organisation once the tender is awarded

Communication of the awarding of the tender and commencement of the transition process is an important step in the outsourcing process. The framework provides the

following as key requirements to ensure communication of the awarding of the tender and commencement of transition is effective:

Defining a clear communication strategy prior to transition process commencing

All cases considered the best manner to communicate the awarding of the tender and commencement of the transition process (Int A-1, Int B-2, Int C-1, Int D-2, Int E-2).

Allowing for proper feedback from affected stakeholders

Cases D and E made inquiries of its affected stakeholders as to suggested ways to communicate the awarding of the tender and process going forward (Int D-1, Int E-1). Int B-2 confirmed with its key third party store owners how it would be best to communicate the awarding of the tender to its employees. Cases A and C did not appear to have engaged its stakeholders in the setting of the communication strategy at this step of the outsourcing process (Int A-1, Int C-2).

The initial communication strategy at the time of awarding the contract to the successful supplier has a number of tasks and duties to complete.

- Introduce the supplier to staff and other organisational stakeholders (Cases A, B, C, D and E completed this task)
- Address any misconceptions, deal with rumours and set clear path and direction (Cases B, D and E completed this task well. Case C moderately well and Case A could not deal with many of the rumours and uncertainties as to the process raised by many of its long serving property division staff according to Int A-1).
- Communicate in a manner that is designed to create a close working relationship between supplier (Cases B, D and E did this well. Case C major business units seemed according to Supp C-2 to “go on the attack” from the first moment and for case A, Supp A-1 and Int A-2 confirmed that there was a significant amount of angst from some senior property division personnel in New South Wales to the appointment and process.)
- Confirm on going management support (Cases A, B, C, D and E, albeit senior management assistance and support was not asked or given to address some of the problems with staff for cases A and C).
- Clearly outline the outsourcing transition process, deadlines, timelines for different process and affected staff. Cases A, B, C, D and E generally met this task. However for case A, the announcement of which staff would be transferred to the supplier took two weeks longer than proposed according to Int A-2 and this according to him did not “endear

either organisation or supplier to the affected staff". Supp A-2 commented that the supplier was made "the whipping boy" for staff issues that concerned primarily the organisation and its property division staff.

Inhibitors

The announcement of the successful tender party can create uncertainty and concern in the minds of staff affected by the outsourcing decision. While all cases implemented a communication strategy, case A appeared the least effective in dealing with staff uncertainty.

Deliverables

All cases delivered a communication strategy for announcing the successful tender party. However, cases A and C appeared to have done so without addressing staff concerns and uncertainties.

5.5.18 Appoint an outsourcing transition team and a transition team leader

The framework provides that once the supplier has been announced then a transition team and transition team leader should be appointed by the organisation seeking outsourcing to steer the outsourcing process to full implementation. The process to do this is summarised in the framework as follows:

Appoint a suitably qualified transition team and transition team leader

A transition team and team leader was appointed in each of the five cases. Each transition team had supplier representatives. For cases A, B and C, the transition team leader was the same person as the initial outsourcing project team leader (Int A-1, Int B-2, Int C-1). Cases D and E appointed a different person to that originally appointed to lead the outsourcing project team (Int D-2, Int E-2). The external consultant appointed to lead the project team in case E remained as a consultant to the transition team (Int E-2).

Attributes of a transition team leader would generally entail:

- Project management skills
- Strong knowledge of the business and industry
- Ability to engender support from the all levels within the organisation
- People handling skills
- Understand alliance and partnering philosophies
- Delegation skills
- Understanding and focus on partnering and alliance
- Problem solving skills
- Dispute handling skills

The background and experience of the transition team leaders varied in the five cases examined. Cases D and E had team leaders with demonstrated general outsourcing

experience and knowledge of facilities and property management (Doc D-7, Doc E-8, Int D-4, Int E-5). The transition team leader for case B had a track record in supplier management having been the procurement head for organisation B for a number of years (Int B-2, Doc B-5). The transition leaders for cases A and C were property division staff seconded to the outsourcing team with good knowledge of property and facilities management but had little experience in supplier management and certainly no outsourcing experience (Int A-2, Int C-2).

Inhibitors

The skill and experience required for a transition team leader may not exist within the organisation. The successful cases in particular cases D and E sourced persons with outsourcing and property management expertise. Similarly case B engaged a person with experience in dealing with procurement contracts. Interestingly, the unsuccessful cases A and C maintained the same persons who were project team leaders to lead the transition. It is interesting that these persons had struggled to deal with many staff issues during the initial phases of the outsourcing process.

Deliverables

An appointment of a transition team and team leader was made for all cases. A key attribute of a successful transition team leader is to handle disputes and resolve differences. Overall, cases B, D and E appear to have had a more experience transition team leader than for cases A and C.

5.5.19 Acknowledge and deal with culture differences between organisation and supplier

Culture differences need to be addressed early on in the relationship between supplier and organisation. The start of the transition period is a good time to address cultural differences between the supplier and organisation. The framework proposes three approaches to address cultural differences early on. These are:

Address early on in the process cultural differences between supplier and organisation

Cases A and C failed to address cultural differences between the supplier and organisation early on. Int A-1 and Supp A-2 agreed that the organisation had a bureaucratic culture while the supplier had a “can do” culture based on speedy decision making. In hindsight, both agreed that nothing was done to address these differences for case A. Similarly, case C had significant cultural differences between supplier and organisation. Supp C-1 acknowledged that organisation C had entrenched views on third parties expertise and reflected by many of the property division staff within organisation C. In addition, Int C-2 stated that many property division staff questioned

the loyalties and motives of the supplier in delivering results especially in large scale real estate sale and lease transactions.

The successful cases appeared to handle cultural differences in a more constructive manner. While the unsuccessful cases kept the supplier and organisation at arms length in fact and perception, the successful cases attempted to give the perception of a joint supplier and organisation effort to the outsourcing process. A transition web site was implemented in case B that was maintained by the transition team and had supplier and organisation input (Int B-2, Supp B-2). The supplier representatives on the transition team worked within the offices of organisation D (Int D-1, Supp D-2). In case E, the supplier and organisation produced their own letterhead and logo embracing supplier and organisation input (Int E-2, Supp E-1).

Embrace differences as part of the outsourcing process

The unsuccessful cases appeared unable to address or otherwise deal with cultural differences early on in the transition process. This is contrasted with the successful cases where the initial thrust was to work in a manner that presented a unified stance between supplier and organisation.

Dispel and deal with entrenched organisational attitudes and resistance to change largely role of transition team leader

Cases A and C had entrenched organisational attitudes that were not addressed by the transition team leader. Int A-2 commented that the New South Wales and Queensland operations frustrated the outsourcing process from the outset. Similarly Int C-1 believed that many in the property division had a belief that the supplier could not “cut the mustard”. When asked why the transition team leader failed to address these attitudes, Int A-2 believed that the transition team leader had limited dispute resolution skills and was not “tough enough” on some of the problem staff. Int C-1 considered the transition leader had not been able to sell positives such as the property research base, track record of the supplier and the property systems that could save them time in producing reports.

Inhibitors

Cultural differences between supplier and organisation can be both a positive and negative. However, the transition team and in particular the transition team leader should address cultural differences early on. Cases B, D and E addressed cultural differences largely by uniting with the supplier to give in fact and in perception a view that the transition team was one team. This was different for cases A and C where cultural differences were allowed to fester because the supplier and organisation were

kept separate without any attempt to provide a united stance to staff and other stakeholders.

Deliverables

Cases B, D and E dealt with cultural differences and delivered a united stance and approach from the commencement of transition. In contrast, cases A and C did not address cultural differences and delivered from the outset of transition a public view that supplier and organisation were not as united as for the other cases.

5.5.20 Milestones achieved – Phase 2

The framework provides that phase 2 has certain milestones to be completed. For the five cases, a summary of the milestones and their completion or otherwise for each case are:

- Tender commenced (achieved for cases A, B, C, D , E)
- Tender documentation issued (achieved for cases A, B, C, D, E)
- Tender responses received (achieved for cases A, B, C, D, E)
- Tender responses evaluated (achieved for cases A, B, C, D, E)
- Successful tender party announced (achieved for cases A, B, C, D, E)
- Risk analysis and evaluation of supplier considered (achieved for cases B, D, E, not achieved for cases A, C)
- Risk principles embodied into contract in the light of risk analysis (achieved for cases B, D and E, not achieved for cases A, C)
- Contract created and entered into by supplier and organisation (achieved for cases B, D and E, not achieved for cases A, C)
- Preferred supplier selected and announced (achieved for cases A, B, C, D, E)
- Transition team and team leader appointed (achieved for cases A, B, C, D, E)
- Addressing cultural differences early in the transition process (achieved for cases B, D, E , not achieved for cases A, C)

5.6 Chapter review and conclusion

This chapter presented the data collected and results from the five intensive case studies. In keeping with the research objectives and methodology set for the study, the success factors framework derived as part of the research was presented in this chapter and assessed against the data and results collected from the five case studies. The research had as an objective whether the principles outlined in the success factors framework created in this study applied and were relevant to the five actual intensive case studies examined as part of the research. This approach is consistent with the 'pattern matching' methodology outlined in chapter 4 for dealing

with case study data and results. The second major objective of this study was to assess if industry practitioners considered the framework as being useful as a tool to assist with the outsourcing of real estate. The research used a focus group approach to meet this research objective. Chapter 6 presents the research findings for phases 3 to 5 of the framework and discusses and presents the results of the focus group sessions held as part of the study.

Chapter 6 : Data Collection, Analysis and Findings – The Five Case Studies (Phases 3 to 5 of the outsourcing framework) and Focus Group Findings

6.1 Introduction

Chapter 6 continues from the previous chapter in outlining the data collection, analysis and findings for the five case studies with emphasis in this chapter on phases 3 to 5 of the outsourcing framework. The data collection and analysis conventions outlined in chapter 4 continue to apply for this chapter. This chapter also presents the data collected, analysis and findings for the focus group component of the study.

6.2 Phase 3: The Transition Phase

The transition phase provides an opportunity for organisation and supplier to prepare the ground work for a successful implementation of the outsourcing arrangement. The framework requires certain tasks to be completed for the transition phase (phase 3) of the outsourcing process. The following table summarises Phase 3 tasks conducted for the successful and the unsuccessful cases.

Phase Three analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Establish a workable transition program					
Revise transition program after discussion with supplier and stakeholders	Yes	Yes	Yes	Yes	Yes
Deal early with delays and blockages that may delay progress	No	No	No	No	No
Build in stoppages and delays to the transition process	Limited	Yes	Yes	No	Limited
Senior management support and commitment to the transition process	Yes	Yes	Yes	No	No
Ensure proper resource allocation	Yes	Yes	Yes	No	No
Establish communication channels during transition phase					
Establish communication strategy from the outset	Yes	Yes	Yes	Limited	No
Use different technologies and communication channels	Yes	Yes	Yes	Limited	Limited
Provide for feedback during transition phase	Yes	Yes	Yes	Yes	Limited
Act on feedback	Yes	Yes	Yes	No	Yes

Phase Three analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Transition team to create partnering and alliance mindset					
Demonstrate partnering and alliance mindset by actions	Yes	Yes	Yes	No	No
Deal with staff not wishing to change	Yes	Yes	Yes	No	No
Engage services of senior management for difficult staff	Yes	Yes	Yes	No	No
Deal with cultural and personality conflicts between supplier and organisation staff	Yes	Yes	Yes	No	No
Assess staff training needs	Yes	Yes	Yes	No	Yes
Establish operating authorities and discretions					
Set appropriate discretions and operating levels	Yes	Yes	Yes	Yes	Yes
Consider risk in setting discretion and authority levels	Yes	Yes	Yes	Yes	Yes
Avoid rigidity in setting authority and discretion levels	Yes	Yes	Yes	Yes	Yes
Refer to audit requires for authorities and discretions	No	Yes	No	No	No
Avoid senior management making all decisions	Yes	Yes	Yes	No	No
Cement working partnership culture and concise process of continuous improvement					
Develop continuous improvement as an actual practice	Yes	Yes	Yes	No	No
Develop and encourage joint problem solving approach between organisation and supplier					
Address major problems and issues quickly	Yes	Yes	Yes	No	No
Avoid blame game	Yes	Yes	Yes	No	Yes
Make problem solving a joint responsibility between supplier and organisation	Yes	Yes	Yes	No	No
Localise problem solving/dispute resolution	Yes	Yes	Yes	No	Yes
Address strengths/weaknesses of data, supplier information systems					
Understand risk reduction focus of transition stage	Yes	Yes	Yes	No	No
Review systems, interfaces with supplier systems, quantify risk with supplier systems	Yes	Yes	Yes	No	No
Perform suitable testing of data, systems and operational processes	Yes	Yes	Yes	No	No

Phase Three analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Obtain audit signoff					
Supplier systems, process and management practices to be signed off by auditor	Yes	Yes	Yes	No	Yes
Undertake internal audit signoff prior to continuing with outsourcing	Yes	Yes	Yes	No	Yes
Develop a rigorous reporting regime for stakeholders and management					
Develop suitable communication protocol	Yes	Yes	Yes	Yes	Yes
Provide proper feedback mechanism	Yes	Yes	Yes	Yes	Yes
Ensure reporting framework caters for different needs within organisation	Yes	Yes	Yes	No	No
Ensure performance reporting considers broader organisational needs	Yes	Yes	Yes	Yes	Yes
Encourage reporting process by all	Yes	Yes	Yes	Yes	Yes
Communicate continually transition progress to affected stakeholders and management					
Communicate broadly to stakeholders and senior management – make aware of impediments	Yes	Yes	Yes	No	No
Identify difficulties during transition and report early	No	No	No	No	No
Inform honestly as to transition progress	Yes	Yes	Yes	No	No
Deal with impediments	Yes	Yes	Yes	No	No
Orderly transfer process of staff, data and files					
Risk mitigation issue to be considered	Limited	Limited	Limited	Limited	Limited
Develop transition action plan	Yes	Yes	Yes	No	No
Perform data integrity tests	Yes	Yes	Yes	No	No
Maintain proper records of all files transferred	Yes	Yes	Yes	Yes	Yes
Define respective roles of senior management within supplier and organisation	Yes	Yes	Yes	No	No
Define clearly respective roles of supplier and organisation senior management	Yes	Yes	Yes	Yes	Yes
Maintain relationship committee	Yes	Yes	Yes	Yes	Yes
Focus on senior management involvement on major issues not day to day issues	Yes	Yes	Yes	No	No

Phase Three analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Revise and signoff final contract conditions to be resolved					
Gain insights in respect of contract conditions, service standards	Yes	Yes	Yes	No	No
Assess if there are any problems with contract service conditions and performance criteria	Yes	Yes	Yes	No	No
Assess if review to the contract service delivery conditions is required	Yes	Yes	Yes	No	No
Be fair but not too soft in watering down service delivery expectations	Yes	Yes	Yes	No	No
Deal with contract delivery concerns before proceeding to contract going live.	Yes	Yes	Yes	No	No
Transition phase review					
Outsourcing objectives, aims and scope to be reviewed in the light of transition phase	Yes	Yes	Yes	No	No
Deal with stakeholder agendas.	Yes	Yes	Yes	No	No
Focus on objectives, aims and scope of outsourcing	Yes	Yes	Yes	No	No
Deal with offending stakeholders and personal agendas	Yes	Yes	Yes	No	No
Obtain as required senior management assistance during the transition phase	Yes	Yes	Yes	No	No

Table 6.1 : Summary of Phase 3 Case Study Performance

These tasks pertaining to the transition phase (Phase 3) are:

6.2.1 Establish a workable transition program with defined timelines and milestones

Although the supplier and organisation will initially discuss a transition program at the time the tender is awarded, the framework provides for certain tasks to be performed to develop a workable transition program. These tasks are:

Revise outsourcing transition activities, tasks, timelines and milestones in the light of any new information gained from discussion with supplier and organisational stakeholders

All cases utilised project management software to create the outsourcing transition program (Doc A-6, Doc B-7, Doc C-6, Doc D-8, Doc E-9). The transition program for the five cases was developed with input from supplier and organisation, although it would appear that cases A, B, C and E the transition timetables were largely impacted by organisational factors more so than supplier requirements (Int A-1, Int B-2, Int C-2, Int E-2). For cases A, D and E, relevant workplace and legislative agreements dictated key timelines in respect to human resource matters especially in the processing of redundancies for transferred and/or terminated employees (Int A-2, Int D-1, Int E-2). These were factored into the outsourcing transition program for these three cases.

Deal early with any delays or blockages that may affect transition program

Information gaps were identified for case A that could materially affect the transition program. When asked why this was the case, Int A-1 confirmed that the organisation considered that information gaps were the responsibility of the supplier and that organisation A had specific deadlines set in its workplace agreements. Supp A-2 commented that information in respect to lease reviews pending, programmed maintenance logs, building warranty information and building outgoings was incomplete and therefore the transition program timetable set was inadequate to satisfactorily transfer accurately and in a complete manner the required information on to the supplier's systems. This was not dealt with appropriately by organisation A. There is no evidence of any delays or blockages for any of the other cases that affected the transition program (Int B-2, Int C-2, Int D-2, Int E-1).

Build in slippage and delays into milestones and timelines

Cases D and E built extensive slippage and delay time into their respective transition timetable (Doc D-7, Doc E-8). Cases B and C had moderate slippage and delay time built into their respective transition timetable (Doc B-7, Doc C-7). There was no slippage or delay time built into the transition timetable for case A (Doc A-8).

Senior management to confirm support for transition process as part of ongoing commitment to transition process

Interestingly, formal senior management support was obtained for cases A and C in the form of written correspondence to certain business units and divisions confirming the transition program (Doc A-8, Doc C-9). For the cases D and E, senior management were briefed by the transition team on progress (Int D-3, Int E-3). Cases B and C had

at least one meeting with senior management during the transition program (Int B-2, Int C-2).

Ensure proper resource allocation (human and financial) to the transition team

For the five cases, there is evidence that proper resource allocation (human and financial) was provided to the transition team (Int A-2, Int B-2, Int C-2, Int D-3, Int E-3).

Inhibitors

The transition program is affected by many variables that may delay or compromise the outsourcing process. Case A had many issues to deal with but did not address them in formulating the transition program. Cases D and E had built in slippage and delay time in the final transition timetable.

Deliverables

With the exception of case A, it appeared that the other cases had derived a workable and realistic transition timetable.

6.2.2 Establish communication channels during the transition phase

The transition phase has its own special communication needs. The framework provides that communication during the transition phase is enhanced by certain tasks. These tasks are:

Establish a communication strategy to deal with transition from the outset of the transition process

The communication strategy for case A focused on meeting the needs of affected employees but did not specifically address other stakeholders (Int A-2). Supp A-2 believed this limited focus compromised gaining support from other stakeholders to the transition program. Cases B and E had defined communication strategies for different stakeholders including third party owners and franchisees (Int B-2, Int E-3). Int D-3 confirmed that organisation D had different communication strategies for staff, divisional staff, councillors and the outside media in communicating to ratepayers. There appeared no formal communication strategy for case C where communication strategy was more “ad hoc” according to Int C-2.

Utilise different technologies and communication channels to suit needs of different stakeholders when communicating transition progress

All case employed face to face meetings with affected employees (Int A-2, Int B-3, Int C-2, Int D-3, Int E-3). Organisation B utilised web based communication strategies implemented with supplier assistance for its various stakeholders (Int B-3). Similarly, organisations D and E had an intranet and other electronic communication strategies

jointly implemented between supplier and organisation (Int D-3, Int E-3). Organisations A and C employed predominantly inhouse email and written correspondence for employee communication (Int A-1, Int C-2). There is no evidence that organisations A and C participated in joint communication strategies with their respective supplier.

Provide for feedback during transition process

All cases had provision for feedback from affected staff (Int A-2, Int B-2, Int C-2, Int D-3, Int E-3). It appears that cases B, D and E provided opportunity for feedback from other stakeholders to a significant extent and case C to a lesser extent, although for case C it appears feedback was limited to only some major business units (Int B-2, Int C-2, Int D-3, Int E-3).

Act on feedback especially from affected staff gained during the transition process

Case A appears not to have addressed feedback from affected staff. Int A-2 mentioned that many property division staff had raised questions on entitlements in transferring to the supplier especially in respect to maintaining housing loan and other entitlements currently in place. In addition, transferred staff was to receive a partial retrenchment if they transferred to the supplier and there was some confusion as to how this was determined. Supp A-3 considered that the inability of organisation A to answer these queries in a timely and direct manner impacted on the support and cooperation of affected staff. There appears to be no similar feedback issues for the other cases.

Inhibitors

Uncertainty of affected staff needs to be addressed. A proper communication strategy with proper feed back is required to counter rumours and false information. Similarly proper feedback and action on feedback is required. Cases B, D and E had a broader communication strategy that dealt with all stakeholders. On the other hand, cases A and C communication strategies were more limited and in the case of organisation A not able to deal with feedback on a timely basis.

Deliverables

Cases B, D and E produced a communication strategy that dealt with a larger number of stakeholders. In addition, these organisations employed web based communication apart from more traditional communication approaches. Cases A and C developed communication strategies that were either more limited or otherwise did not deal with feedback issues on a timely basis.

6.2.3 Transition team to create a partnering and alliance mindset between supplier and organisation key staff in outsourcing contract

The transition phase is the time of the first working relationship between organisation and supplier. It provides an opportunity to develop a working relationship. The framework provides that a partnering and alliance mindset is enhanced by:

Demonstrate partnering and alliance mindset by actions not just words

For cases B, D and E, the supplier and organisation operated its transition program from one location and ensured that supplier and organisation representatives were in constant contact (Int B-2, Int D-3, Int E-3). Major announcements were made jointly by supplier and organisation in cases B, D and E (Supp B-3, Supp D-2, Supp E-3). For cases A and C, the supplier and organisation transition team representatives did not work from the one office and communication was largely separate. Supp A-3 mentioned that many of the staff meetings were held with affected staff by either the organisation or supplier depending on the context of the meeting. Accordingly, Supp A-3 thought that some organisation A staff saw the non involvement of their employer as “being discarded”.

Create a partnering and alliance mindset and reality by:

- Joint training, presentations and education (Cases B, C, D and E had some form of training for staff selected to join the supplier. In addition, case D had detailed training sessions on supplier D’s systems during the transition period (Int B-2, Int C-2, Int D-3, Int E-3). Int A-2 and Supp A-3 confirmed that the view of organisation A was that training should occur as soon as the physical transfer of staff to supplier was completed.
- Training and re-education of staff to be transferred (Cases B and E had significant training as part of the transition process. This training was extended to franchisees and third party store owners as relevant (Int B-2, Supp B-3, Int E-3, Supp E-3).
- Dealing with culture issues at supplier and organisation level. Cultural issues and potential conflicts were present in cases A and C, yet in both cases there was no attempt to deal with cultural issues during the transition process (Int A-2, Int C-2).

Dealing with staff problems especially those not wishing to embrace change

Cases A and C had staff who did not embrace the outsourcing process. Supp A-3 lamented that organisation A had some of the “most uncooperative staff” that supplier A had encountered in its real estate outsourcing experience. He mentioned that copies

of leases, freehold titles and other information for New South Wales and Queensland were not provided to them until well after the contract was implemented. Similarly case C had some staff within the property division and major business units limiting information to the supplier on site selection and major real estate transactions. Supp C-2 commented that several staff saw outsourcing as “breaching their territory” and accordingly uncooperative in providing information to the supplier. There was no evidence from the other cases of staff deliberately thwarting the transition process (Supp B-2, Supp D-3, Supp E-3).

Engage the services of senior management to deal with uncooperative staff

Supp A-2 considered organisation A’s senior management response in dealing with uncooperative staff as “ineffectual”. Similarly Supp C-2 believed that the property division had a lesser standing to the major business units that were uncooperative and accordingly senior management was unable or unwilling to address staff issues.

Dealing with any cultural or personality conflicts between supplier and organisation staff

Cases B and E addressed with the supplier some cultural and personality issues between supplier and organisation staff. Supp B-2 and Int B-2 confirmed that changes were made to the transition team to address some conflict that had occurred. Similarly, Int E-3 mentioned that one of its staff was taken off the transition team due to not providing the supplier timely information. Supp D-3 and Int D-3 stated that there were no obvious personality conflicts between supplier and organisation transition team members. Cases A and C did not deal with personality conflicts despite friction between supplier and organisation transition team members. Int A-2 commented that supplier A had appointed its senior person who was “very public servant” in his attitude and accordingly did not get on well with many of the organisation’s representatives. Supp A-2 believed that the organisation A representatives on the transition team were ineffectual in dealing with inhouse politics and engendering cooperation. This was a similar theme with case C where supplier and organisation transition team representatives had a number of conflicts and differing viewpoints.

Assess training needs of transferred staff versus retained staff

Case D had worked with the supplier to develop a detailed training program (Int D-3, Supp D-3). Similarly cases B, C and D considered training requirements to some extent and a training program was implemented during the transition period (Int B-2, Int C-2, Int E-3). Organisation A considered that training was the supplier’s responsibility and accordingly training was not implemented during the transition program.

Inhibitors

The lack of a partnering and alliance mindset may jeopardise outsourcing outcomes. It is important that personality conflicts between supplier and organisation representatives are dealt with. Cases B, D and E encouraged the development of a partnering and alliance mindset during the transition program. This was achieved by training initiatives and dealing with personality conflicts. On the other hand, cases A and C could not deal with personality conflicts between the supplier and organisation representatives on the transition team.

Deliverables

Cases B, D and E developed a partnering and alliance mindset during the transition program. This was not the case for case A and C.

6.2.4 Establish operating authority decision making and discretion levels between the supplier and organisation

The day to day running of the outsourcing contract requires proper authority and decision making discretions. This is required to ensure that the contract management flows smoothly without requiring senior management approval or comment in all decisions. The framework proposes the following in respect to establishing operating authority and decision making discretion levels between supplier and the organisation:

Set authority and discretion levels appropriately to ensure efficient management of the contract

All five cases appear to have satisfied this (Int A-2, Supp A-2, Doc A-1, Int B-2, Supp B-2, Doc B-1, Int C-1, Supp C-2, Doc C-1, Int D-3, Supp D-3, Doc D-1, Int E-3, Supp E-3, Doc E-1).

Consider risk and materiality in setting the authority and discretion levels

All five cases appear to have considered risk and materiality in setting authority and discretion levels (Int A-2, Supp A-2, Doc A-1, Int B-2, Supp B-2, Doc B-1, Int C-1, Supp C-2, Doc C-1, Int D-3, Supp D-3, Doc D-1, Int E-3, Supp E-3, Doc E-1).

Avoid rigidity in setting authority and discretion levels

None of the outsourcing arrangements either in the contract or developed during the transition program are considered to be rigidly set (Int A-2, Supp A-2, Doc A-1, Int B-2, Supp B-2, Doc B-1, Int C-1, Supp C-2, Doc C-1, Int D-3, Supp D-3, Doc D-1, Int E-3, Supp E-3, Doc E-1).

Refer to audit requirements pertaining to authority and discretion levels

Only case D referred its authority and discretion levels to its internal audit for comment (Int D-3).

Avoid senior management making all decisions or being referred all decision making, expect discretions and authority levels to be acted on in day to day decision making

Interestingly, case A's outsourcing contract provided that a decision or dispute resolution could only be escalated to senior management only if certain decision making steps were completed at the operational level. Int A-2 and Supp A-2 considered this one of the more favourable provisions in the contract as it forced at least on paper resolution of most problems at the operational level before escalation to senior management. The other case contracts and authorities developed during the transition phase were constructed in a similar mindset (Int B-2, Int C-1, Int D-3, Int E-3).

Inhibitors

If authorities and discretion levels are set unrealistically or in a rigid manner then the outsourcing arrangement is likely to be compromised. All cases appear to have addressed this inhibitor by adopting realistic and commercially set authorities and discretion levels.

Deliverables

Clear authority and discretion levels were set for all cases.

6.2.5 Cement a working partnership culture and commence a process of continuous improvement of contract delivery standards

The outsourcing outcome is enhanced by a process of continuous improvement of contract delivery standards. The framework provides a number of ways to cement continuous improvement as a cultural practice:

Develop continuous improvement as a cultural practice from the outset by:

- Developing and encouraging implementation of new approaches. Supplier B initiated several changes to the organisation's property cost budgeting and tracking system (Int B-2, Supp B-2). Supplier D resolved a cost effective manner for organisation D's systems to interface and allow access to the supplier's system (Int D-3, Supp D-3). Supplier E utilised a web based property management system that had all properties imaged and collated on the web site for access by organisation staff (Int E-3, Supp E-3).
- Challenging the status quo within organisation and supplier. For case B, records management storage was addressed by electronic imaging (Int

B-2, Supp B-2). The supplier and organisation reworked its preventative maintenance program to focus on key risk areas such as cooling towers and public safety for case D (Int D-3, Supp D-3). Previously organisation E did not entertain open plan office fitout and its occupancy ratios were 1 person for every 18 square metres. The transition team looked at ways of introducing open plan fitout to reduce space by achieving a 1 person for every 10 square metres of occupied space (Int E-3, Supp E-3). Discussions with Int A-2 and Int C-1 did not point to any continuous improvement initiatives initiated by the supplier for cases A and C.

Inhibitors

Continuous improvement initiatives by supplier and organisation assist in enhancing the performance of the outsourcing arrangement. The lack of continuous improvement initiatives impacts on the performance of the outsourcing contract. Cases B, D and E had demonstrated continuous improvement initiatives.

Deliverables

Cases B, D and E delivered a working partnership focused on continuous improvement initiatives. This was not the case for cases A and C where the organisation did not identify continuous improvement initiatives.

6.2.6 Develop and encourage a joint problem solving approach between organisation and supplier

The framework identifies a joint problem solving approach as important to the outsourcing process. This joint solving approach is first nurtured during the transition process. A joint problem solving regime can be developed by considering the following:

Addressing major problems and issues quickly and in a spirit of cooperation

Cases B, D and E appear to have had no major problems or issues that were unresolved during the transition stage (Int B-2, Supp B-2, Int D-3, Supp D-3, Int E-3, Supp E-3). Int C-2 and Supp C-2 had some disagreement on a cleaner that the supplier wished to engage and that organisation C had used previously without satisfaction. Supp C-2 believed that by agreeing to replace the cleaning contractor, it was undermining its standing with organisation C. Similarly, organisation A and supplier A were in dispute as to sign off data provided by the organisation to supplier A. Int A-2 and Supp A-1 agreed that this issue caused some degree of consternation between supplier and organisation.

Avoiding blame game as a means to deal with problems

This appeared not to be a concern for cases B, C, D and E. Even during the transition phase, organisation A and supplier A were continually in dispute as to who was responsible or accountable on different aspects of the outsourcing arrangement. Int A-2 believed that this affected the arrangement from the outset and the arrangement was always going “to be on the back foot” given the arguments during the transition period.

Making problem solving a joint responsibility for major issues and challenges

Cases D and E in particular took pride in working as a team during the transition phase. Int D-3 and Supp D-3 believed that the transition team worked well together and saw the resolution of major issues as requiring action from both supplier and organisation. Similarly, Int E-3 commented that the supplier understood the politics and sensitivities regarding organisation E’s franchise and third party stores.

Localising problem solving and dispute resolution for lesser issues and problems requiring to be dealt quickly and expediently

Most of the problem solving and dispute resolution during the transition phase did not escalate to senior management. Supp A-2 had hoped that escalation of non cooperation by some property division staff would be rectified but this turned out not to be the case. He mentioned that after this proved ineffective, the view of supplier A was to limit most of the resolution of major matters at the operational level and not escalate the problem to the organisation’s senior management.

Inhibitors

Ultimately if the major problem or issue at hand is not seen as a joint problem or accountability then it is likely that resolving the problem may be compromised. Cases B, D and E encouraged and implemented joint problem solving initiatives. Case C did not encourage problem solving initiatives. Case A quite clearly did not undertake joint problem solving initiatives and argued continually with the supplier that many of the issues were the accountability of the supplier.

Deliverables

Cases B, D and E can be said to have developed and encouraged a joint problem solving approach. Cases A and C did not develop a joint problem solving approach during the transition phase.

6.2.7 Address strengths and weaknesses of data, systems and information provided to supplier and organisation

The transition phase provides an opportunity for the supplier systems to be tested prior to the outsourcing contract going live. The framework considers the following tasks to be important in addressing data, systems and information integrity:

Understand transition stage has a risk reduction focus

The successful cases viewed the transition phase as having a risk reduction focus. Int D-3 stated that the “transition phase” allowed organisation D to assess supplier capability and system areas that needed attention. Int E-3 commented that the transition stage provided the opportunity to assess the supplier’s facility management information system in detail. There was some incompatibility with fire services monitoring systems managed by the supplier that were addressed at the transition stage. Int E-3 stated that this saved the organisation significant sums in avoiding false alarms and unnecessary fire emergency services call out. Int B-2 mentioned that the supplier made upgrades to provide in its system for tracking of movements of store fixtures between organisation B’s various stores.

For cases A and C, there is no evidence of these organisations assessing supplier system risks in detail during the transition phase. Int C-2 mentioned that organisation C’s information system area evaluated system interfaces and compatibility. Int A-2 confirmed that the supplier provided as part of the outsourcing arrangement the required hardware and software for the organisation to access the supplier’s system. While organisation A conducted a cursory review of system reports and screens, Int A-2 believed that the viewpoint was that the supplier would make the necessary changes where required. Supp A-2 commented that this viewpoint was a source of “aggravation” between organisation A and the supplier. Overall, the evidence obtained for cases A and C did not highlight any detailed system testing or close examination of supplier system functionality.

Review systems and data limitations, interfaces, assess and quantify the risks discovered as part of the transition in respect to the information obtained

Cases B, D and E conducted detailed system testing and data integrity testing on the suppliers systems and at the same time quantifying and resolving problems discovered (Int B-2, Int D-3, Int E-3). The suppliers for cases B, C, D and E confirmed that the much of the source data was directly loaded into the supplier’s system and therefore eliminated problems with rekeying data into the supplier’s system (Supp B-1, Supp C-2, Supp D-3, Supp E-3). However, organisation A had a property management system based on Access 2003 software and the incompleteness of the data made it difficult for

direct upload into the supplier's proprietary system. Supplier A had to manually enter in the core data into its own system according to Supp A-2.

Perform suitable testing of data, systems and operational processes and deal with problems/issues discovered

Cases B, D and E conducted detailed testing of supplier systems and assessed data integrity issues. These cases also tracked some of the more difficult property reporting and management issues faced by their respective organisation. Case B tracked whether the supplier's system could track design and build project costs (Int B-2). Case D tracked whether the supplier's system could report on space management use efficiencies for its various premises (Int D-3). Case E tracked whether the supplier's system could adequately track work scheduling maintenance for its various stores located throughout Australia. There was no evidence that cases A and C conducted any significant and detailed testing of system data and tracking of system functionality on key property operations and processes.

Inhibitors

The supplier's systems may not have the required functionality or able to deal with the processes or operations of the organisation. The transition phase gives the organisation an opportunity to test supplier systems, assess risks and deal with problems identified. Cases B, D and E handled this inhibitor. For the most part, cases A and C appeared not to have explored supplier system's functionality and integrity in any detail.

Deliverables

Cases B, D and E assessed supplier system functionality and system integrity. On the other hand, cases A and C had largely a cursory and inadequate assessment of supplier system integrity.

6.2.8 Audit internal audit signoff to suppliers, systems, processes and management practices

The framework provides that independent audit review of supplier systems, processes and management practices is important to objectively review supplier capacity to perform the outsourcing contract. In particular, the framework provides for the following tasks to be performed in respect to independent review of supplier systems:

Undertake an internal audit review of supplier systems, processes and management practices during the transition process to reassess supplier and outsourcing risk assessed in prior phases and devise suitable risk mitigation strategies.

Cases C, D and E had their respective internal audit area overview the key aspects of supplier systems, processes and management practices. Their report and suggested improvements were provided to the organisation. In addition, the supplier in each case received the report and commented and/or acted on the suggested improvements to systems or practices (Int C-2, Int D-3, Int E-3, Supp C-2, Supp D-3, Supp E-3). For organisation B, Int B-2 stated that its external accounting firm conducted a visit to the supplier's premises and had the supplier complete a questionnaire on key supplier system and management practices. Int B-2 discussed the findings with his supplier counterpart. Case A did not engage an independent review of supplier system's and management practices until the contract went live (Int A-1).

Ensure sign off to be provided by internal auditor before proceeding further with outsourcing process and any recommendations to be implemented by transition team

Cases B, C, D and E had independent internal audit or external accountant signoff to proceed with the outsourcing arrangement.

Inhibitors

The transition team may not have the expertise to identify all problems or issues with supplier systems or management practices. Accordingly, independent audit or external accountant review is useful to identify such problems. Cases B, C, D and E addressed this inhibitor.

Deliverables

For cases B, C, D and E, the transition team had independent audit or external accountant signoff to the adequacy of supplier systems and management practices.

6.2.9 Develop a rigorous organisational, management and stakeholder reporting regime

A reporting framework is typically outlined in the outsourcing contract and further developed during the transition phase. Some important considerations to do this are outlined below:

Ensure a proper communication and reporting protocol is developed

All cases had developed a proper communication and reporting protocol (Int A-1, Doc A-1, Int B-2, Doc B-1, Int C-1, Doc C-1, Int D-3, Doc D-1, Int E-3, Doc E-1). Interestingly, case A had the most detailed communication and reporting framework

contained within the outsourcing contract and then further refined during the transition phase

Provide a proper feedback mechanism

All cases (Int A-1, Doc A-1, Int B-2, Doc B-1, Int C-1, Doc C-1, Int D-3, Doc D-1, Int E-3, Doc E-1).had a proper feedback mechanism embodied within the outsourcing contract

Cater the reporting framework for different needs within organisation

Cases B and D were concerned with reporting to external third parties and the outsourcing contract had provisions on reporting timelines and processes (Int B-2, Doc B-1, Int D-3, Doc D-1). There was lesser or no concern in the other cases (Int A-2, Int C-2, Int E-1).

Ensure performance reporting considers broader organisation needs, information requirements and presentation of information

Reporting provisions in the outsourcing contract for all cases were broadly set and the transition team in each case implemented a variety of reporting frameworks to suit the individual circumstances of the organisation (Int A-1, Doc A-1, Int B-2, Doc B-1, Int C-1, Doc C-1, Int D-3, Doc D-1, Int E-3, Doc E-1).

Encourage engagement of reporting process by all and not rely totally on direction or coercion to participate in reporting and monitoring the day to day service delivery of the supplier

All five cases had well developed reporting frameworks and the supplier and organisation had responsibilities and accountabilities to assist in reporting and monitoring performance. Accordingly there was no need to direct or coerce for proper reporting and monitoring procedures from either supplier or organisation for any of the five cases (Int A-1, Doc A-1, Int B-2, Doc B-1, Int C-1, Doc C-1, Int D-3, Doc D-1, Int E-3, Doc E-1).

Inhibitors

The reporting framework is initially outlined in the contract and then refined during the transition process. A proper and timely reporting framework is essential to ensure that supplier performance is tracked on a timely and accurate basis. All five cases appear to have dealt adequately in setting a proper reporting framework.

Deliverables

All five cases developed an adequate supplier reporting and monitoring framework.

6.2.10 Communicate continually transition progress to stakeholders and deal with impediments to progress

Transition progress can be affected by a number of factors and need to be dealt with to ensure that the contract implementation is not delayed. The framework recommends certain tasks and activities to address transition impediments:

Communicate broadly and often ensuring all affected stakeholders and senior management are aware of transition progress and any impediments

Case A had a number of impediments to the transition process. Supp A-2 mentioned that there were delays in obtaining the required information and data from organisation A. Int A-1 stated that finalisation of human resource issues were delayed for a number of reasons due to property divisional staff being on various enterprise and work place agreements. This delayed the transition process by some four weeks according to Supp A-2. Int A-2 acknowledged that reporting delays and uncertainties in the transition process could “have been handled better”. For case C, the transition program was delayed due to final signoff from business units whether mobile phone tower installations, licences and leases would be transferred under the outsourcing arrangement to supplier C. Int C-1 and Supp C-2 believed that some of the third party stakeholders responsible for installing mobile phone towers were “disenchanted” with the delays and uncertainty. Supplier C was concerned about the lack of overall reporting of transition progress by organisation C to staff and affected stakeholders.

Cases B, D and E transition teams had a defined reporting timetable as to transition progress. Int B-2 stated that staff and other stakeholders were informed on a weekly basis as to transition progress. Int D-3 mentioned that separate transition reports were circulated to staff and divisional heads on progress relevant to each. Int E-3 outlined that the transition team issued two detailed reports to staff and affected stakeholders during the transition process.

Identify difficulties and report on early on to senior management for assistance as relevant

It does not appear that any of the cases had either required or sourced senior management assistance to deal with impediments during the transition process (Int A-1, Int B-2, Int C-2, Int D-3, Int E-3). For cases B, D and E, this did not appear necessary. However, neither Int A-1 nor Int C-2 could explain why senior management assistance was not utilised to deal with impediments during the transition phase.

Inform honestly and promptly as to progress of transition

It is acknowledged that cases A and C could have handled reporting on transition progress in a more timely manner and process (Int A-1, Int C-2).

Deal with impediments to progress

Cases A and C did not deal with impediments to the transition process in an effective manner (Supp A-2, Supp C-2). Cases B, D and E had been able to deal with various impediments during the transition process (Int B-2, Supp B-1, Int D-2, Supp D-1, Int E-1, Supp E-1).

Inhibitors

If reporting on transition progress is not done in a timely and effective manner, then the outcome is likely to be confusion and uncertainty among affected staff and other stakeholders. Cases B, D and E addressed this inhibitor adequately by adopting timely and effective transition reporting strategies.

Deliverables

A proper transition reporting strategy was implemented in cases B, D and E. Cases A and C did not implement a proper transition reporting strategy.

6.2.11 Develop an orderly transfer process relating to staff, data and files

Improper transfer of staff, data and files to the control of the supplier creates significant risk issues. The framework suggests that an orderly transfer process relating to staff, data and files is enhanced by the following:

Understand risk mitigation prime concern as highly risk stage of the transition involves transfer of staff, files and data

The responses from interviewees indicated that the enormity of the task and potential risk issues in respect to transfer of staff, files and data may have been underestimated in all cases (Int A-2, Int B-1, Int C-1, Int D-3, Int E-3).

Develop a transfer action plan for those affected staff, data and files taking into account:

- Legislative and work place arrangements in place (Cases A and E were subject to workplace agreements that affected the manner in which staff could be transferred to the supplier (Int A-2, Int E-3). Legislative and work place arrangements not as restrictive an issue for the other three cases.
- Staff treated ethically and human resource issues dealt with properly (Case A had the most staff complaints about the conduct of the outsourcing process when compared to the other four cases. The principle issue was according to Int A-2, the “take it or leave it” approach to redundancies. Staff members were at risk of losing their partial redundancy entitlements if they did not transfer to the supplier if required

by the outsourcing arrangement. Int A-1 acknowledged that the enterprise bargaining agreement was written for outsourcing arrangements more found in information systems when the whole division is transferred. He admitted that the provisions were somewhat unfair to those staff that did not wish to transfer to the supplier and leave the organisation. There is no evidence of similar human resource issues for the other four cases (Int B-2, Int C-1, Int D-3, Int E-3).

- Staff transferred are given adequate training in supplier systems (Cases B, D, and E had adequate training in supplier systems as part of the transition process (Int B-1, Int D-3, Int E-3). Int C-2 acknowledged that there was a “rush to transfer out” those staff members going to the supplier and accordingly training was seen as the concern of the supplier. Similarly, Int A-2 confirmed a similar viewpoint in respect to organisation A and therefore employees transferred out were not trained in supplier systems prior to transfer.

Perform data integrity tests on data to ensure accuracy and reliability of data transferred

Cases D and E in particular conducted detailed data verification tests in conjunction with the supplier. Data consistency checks were done comparing supplier system output and organisation system output (Int D-3, Supp D-3, Int E-3, Supp E-3). Int B-2 confirmed that the supplier provided a signoff of “data completion of entry” and assumed handover responsibility as to system data as required under the contract (Doc B-1). Int C-2 stated that the supplier under contract had 21 days under the contract to verify and then assume responsibility for system data transferred to the supplier. Supplier C signoff was on the basis that the responsibility to the supplier was restricted to those properties where the information was complete and did not include licence and lease arrangements for exchanges, mobile switch networks and other installations where the information was missing, inaccurate or misleading. Supp A-2 lamented that the data transfer and system integrity process from organisation A was a “disaster”. He confirmed that the Access 2003 database provided by the organisation had missing land title data, wrong lease commencement/expiry dates, outdated landlord details, wrong rent review dates and a “myriad of other missing or wrong information”. Supp A-2 stated that these information gaps and problems were present and not rectified well into the start of the contract proper.

Maintain proper records of all paper files either current or archived transferred

All cases required under their respective outsourcing contracts required the supplier to maintain a log of all paper files transferred from the organisation. All suppliers

confirmed that they maintained proper records for all paper files transferred to the supplier from the organisation (Supp A-1, Supp B-2, Supp C-1, Supp D-3, Supp E-3).

Inhibitors

Files, data and assets not properly transferred can compromise the workings of the outsourcing arrangement as the supplier will not have accurate information to work from. Therefore this inhibitor is addressed by verification of data at time of entry into supplier system. Cases B, D and E addressed this inhibitor more effectively than cases A and C.

Deliverables

Cases B, D and E took steps working with the supplier to ensure that data entry into the supplier's systems was verified. Cases A and C relied on the supplier to perform this task and the outcome was of a lesser standard compared to the other three cases.

6.2.12 Define respective roles of senior management within supplier and organisation

Senior management roles need to be defined for the supplier and organisation to ensure and orderly working of the outsourcing arrangement. The framework addresses this by requiring the following tasks to be undertaken:

Define clearly negotiation and deliberation role of respective senior managers

All five cases specified in the outsourcing contract the role of senior management in dispute resolution and variation of contract terms (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-2). Therefore for all five cases the role of senior management in negotiation and deliberation of major contract matters was established from the outset.

Define senior management roles going forward – both senior management in supplier and organisation

For three of the five cases (A, B and D), the focus of the transition team was to structure a working relationship between supplier and organisation where operational staff and not senior management were responsible for the running of the contract's day to day issues (Int A-2, Doc A-1, Int B-2, Doc B-1, Int D-1, Doc D-3). For these cases, senior management input was restricted to: dispute resolution, contract variation and renegotiation and approval outside of set discretions and authorities. Cases C and E placed more focus on senior management involvement in the running of the contract. The transition team for case C required that organisation senior management be involved in all lease and sales transactions regardless of amount. Int C-2 confirmed this was in response to business units in organisation C not wishing the supplier to have control over site selection and lease negotiation given the costs would be charged back

to the business unit. Int E-3 confirmed that the remaining property division employees left to administer the outsourcing contract for organisation E were senior management in any case and therefore would be dealing with other organisation and supplier senior management.

Maintain relationship committees, steering meetings comprised of selected senior persons from organisations and supplier on a periodic basis

All five case studies had defined in their respective contracts an appointed body for supplier and organisation representatives to meet on a regular basis to discuss, negotiate and resolve issues in respect to the contract. Case A had a 'relationship committee' (Doc A-1). Cases B and E had a 'steering committee' (Doc B-1, Doc E-1). Case C had a 'management committee' (Doc C-1). Case D had a 'contract control group' (Doc D-1).

Focus on senior management input on major issues not day to day operational matters

The successful cases utilised senior management more effectively than the unsuccessful cases. Int A-2 viewed the role of senior management as "passive and distant". He believed that the inability of organisation A senior management to deal with dissenting property division staff ensured that many of the property management files were not handed over to the supplier during the transition period. Interestingly, Int A-2 stated that senior management devoted time to whether the supplier should use a fleet maintenance vehicle kept in the head office building yet missed the "bigger issues to do with the contract". Similarly, Int C-1 believed that senior management were keen not to enter into a "turf war" with other organisation C business division and therefore some business units continued to source their own sites for a period of time after contract commencement. There was no evidence for cases B, D and E that senior management devoted time to operational issues at the expense of major property matters. Supp B-2 commended organisation B on its "tenacity" to obtain CAD drawings of organisation B's former architect who was reluctant to hand over the drawings to supplier B. Similarly, Supp D-1 believed that organisation D divisional director was "supportive and involved in making things happen". Supp E-3 believed that the organisation E senior management assisted with both major and operational decisions.

Inhibitors

The contract may have distinct roles outlined for supplier representatives for supplier and organisation. However, organisation senior management may find it difficult to let go of operational issues and not assist with major decision making or removal of blockages. Cases B, D and E appeared to deal with these inhibitors in a more effective manner than cases A and C.

Deliverables

Cases B, D and E delivered a workable relationship between organisation and supplier senior management. Cases A and C appeared to have a compromised or ineffectual working relationship between the respective senior management.

6.2.13 Revise and signoff final or unresolved contract conditions, service standards, performance criteria as relevant

The supplier and organisation is required in the framework to come to an agreement on service standards and performance criteria prior to the contract going live. This may involve a revision to contract conditions or a change in mindset as to what are realistic service and performance criteria. The framework provides a number of ways for this to occur:

Gain insights from the transition in respect to contract conditions, service standards or performance criteria

Cases B and D in particular used the transition period to review contract conditions, service standards and performance criteria (Supp B-1, Int B-2, Supp D-3, Int D-3). The transition team for case E according to Int E-3 and Supp E-3 conducted a review of call centre response times set out in the contract for security, repairs and maintenance issues as this was the prime concern for its stakeholders. Int A-2 and Int C-1 confirmed that for cases A and C respectively, the contract performance standards and criteria were not reviewed during the transition stage. Int A-1 was quick to point out that the supplier had “tendered on its capabilities and its stated abilities to meet certain performance standards, so why change what was in the contract?”

Assess if there are any problems with the contract service standards and performance criteria identified during the transition process

Supp B-1 and Int B-2 confirmed that the review highlighted potential cost issues with cleaning of retail stores as it was not possible to use one contractor given the different locations of the stores. Supplier D-3 and Int D-3 mentioned that a review by the transition team highlighted several problems in meeting expected standards and performance criteria, especially in respect to alarm monitoring and response given the state of the fire and emergency service alarm systems. Supplier E identified that preventative maintenance program timetables set in the contract were likely to cause problems as some stores had older style roof top cooling towers and more frequent checking and maintenance was required. Cases A and C did not identify any problems with service standards during the transition period (Int A-1, Int C-2).

Assess if a revision to the contract and especially service delivery or performance criteria within the contract is required

Cases B, D and E had tabled via memo, email or other means the various revisions to service standards and performance criteria determined during the transition period that were to apply during the contract period. These revisions to the contract performance standards were confirmed by the respective parties to be applicable to the contract (Doc B-10, Doc D-11, Doc E-9).

Be fair but not too soft in watering down service delivery expectations

Supplier and organisation in the cases where service and performance standards were altered during the transition phase confirmed that the revisions or clarifications were fair and reasonable (Int B-1, Supp B-2, Int D-3, Supp D-3, Int E-3, Supp E-3).

Deal with contract and service delivery concerns before proceeding to contract going live

Cases B, D and E did this (Int B-2, Int D-1, Int E-2) and cases A and C did not deal with contract and service delivery concerns (Int A-1, Int C-2).

Inhibitors

Service delivery and performance standards may be impacted by factors not known during the initial development of the outsourcing contract. Accordingly, the transition phase provides an opportunity to address these factors. Cases B, D and E took the opportunity to address service and performance standards and cases A and C did not.

Deliverables

Cases B, D and E produced service delivery standards which were reviewed and altered during the transition phase. Cases A and C did not produce delivery and performance standards reviewed during the transition phase.

6.2.14 Transition phase review according to outsourcing objectives, aims and scope and dealing with stakeholder agendas

Transition success requires concentration on the outsourcing objectives, aims and scope that drove the process to outsource from the outset. In addition, the transition phase provides the opportunity for the organisation to deal with troublesome stakeholder agendas that may compromise the outsourcing arrangement when the arrangement goes live. The framework requires these issues are dealt with by the following tasks and activities:

Focus on objectives , aims and scope of outsourcing during the transition process at all times, work within these factors and not other agendas

Cases B, D and E appeared to have concentrated on the main on objectives, aims and scope of the outsourcing process according to comments made by their respective organisation and supplier representatives (Int B-2, Supp B-2, Int D-3, Supp D-3, Int E-3, Supp E-3). On the other hand, cases A and C appeared to struggle with conflicting stakeholder agendas throughout the transition phase (Int A-2, Int C-2).

Deal with offending stakeholders and personal agendas

Cases A and C were affected by conflicting and offending stakeholder and personal agendas. Int C-2 stated that for some organisation C business units “anything to do with corporate real estate outsourcing was seen as going against their interests”. Int A-2 remarked that there were persons in the property division that would never “accept that any body else could manage property or facilities as well as they could”. As discussed previously, personal and stakeholder agendas if they did exist did not appear to have impacted on the outsourcing arrangement. Cases B, D and E appeared to have addressed stakeholder and personal agendas in various manners (Int B-2, Int D-3, Int E-4).

Obtain senior management assistance and commitment ensuring transition phase maintains focus on outsourcing objectives, aims and scope

Senior management in cases A and C appeared either unwilling or ineffectual to deal with personal agendas. Int A-2 offered one reason as that the outsourcing objectives and aims were “not clear from the outset” and that having been “forced” upon the property division meant that for some persons “outsourcing was never going to fly”. Int C-2 stated that senior management within the property division were of “lesser rank” in perception and the offending business units pushed the view that as “revenue earners they should control some of the processes proposed to be outsourced”. For cases B, D and E, the consensus of supplier and organisation was that for these cases the focus was on outsourcing objectives, aims and scope throughout the transition process (Int B-1, Supp B-2, Int D-3, Supp D-1, Int E-3, Supp E-2).

Inhibitors

Senior management needs to deal with crippling stakeholder and personal agendas. If left unchecked, these conflicting agendas will compromise the outsourcing process. Cases B, D and E dealt with these inhibitors objectively. In contrast, cases A and C appeared unable to deal and/or obtain senior management assistance to deal with these personal agendas conflicting with outsourcing objectives and aims.

Deliverables

Cases B, D and E had finalised the transition process with confirmation of the initial outsourcing objectives, aims and scope set for that case. On the other hand, cases A and C completed the transition process with stakeholder and personal agendas which compromised the process largely unresolved.

6.2.15 Milestones – Phase 3

The framework provides the phase 3 provides for milestones to be completed. The milestones and their completion for each of the cases is outlined below:

- Transition team and team leader in place (achieved cases A, B, C, D and E)
- Communication strategy – transition progress (achieved cases A, B, C, D and E, although strategy appears more effective for cases B, D and E)
- Establishment of an alliance and partnering relationship between organisation and supplier (achieved cases B, D and E, not achieved for cases A and C)
- Agreement on service standards and performance criteria as considered and/or revised during transition phase (achieved for cases B, D and E, not achieved for cases A and C where the original contract service standards continued to operate)
- Policies and programs created (continuous improvement, joint problem solving) (achieved for cases B, D and E, not achieved for cases A and C)
- Reporting framework developed (achieved for cases A, B, C, D and E)
- Audit sign off (achieved for cases B, D and E, not achieved for cases A and C)
- Confirmation of the transition team to progress to contract going live (achieved for cases A, B, C, D and E, however cases A and C did not address personal and stakeholder agendas and these were unresolved)

6.3 Phase 4: Managing the Outsourcing Process

The framework provides for phase 4 of the outsourcing process. Phase 4 involves contract management. For successful contract management, the framework provides for certain tasks and activities.

Phase Four analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Manage stakeholder expectations in respect to outsourcing arrangement					
Manage perceptions and misconceptions of outsourcing arrangement	Yes	Yes	Yes	No	No
Focus on contract performance criteria	Yes	Yes	Yes	No	No

Phase Four analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Educate stakeholder on service delivery and performance standards in contract	Yes	Yes	Yes	No	No
Listen to the stakeholders	Yes	Yes	Yes	No	No
Deal efficiently with stakeholder concerns	Yes	Yes	Yes	No	No
Insist on open and transparent dialogue between supplier and organisation and within organisation	Yes	Yes	Yes	No	No
Monitor and report on supplier performance in an open and transparent manner	Yes	Yes	Yes	No	No
Create proper communication channels between supplier and organisation					
Encourage timely and open communication between supplier and organisation stakeholder	Yes	Yes	Yes	No	No
Focus on developing proper communication channels	Yes	Yes	Yes	No	No
Allow stakeholder input and provide feedback	Yes	Yes	Yes	No	No
Minimise number of communication channels	Yes	Yes	Yes	No	No
Limit communication channels to minimum number of persons from the supplier and organisation	Yes	Yes	Yes	Limited	Limited
Address problems, conflicts and disagreements between organisation and supplier quickly					
Small conflicts should not be allowed to escalate	Yes	Yes	Yes	No	Yes
Do not sweat on the small stuff	Yes	Yes	Yes	No	Yes
Do not let disputes grow or remain unresolved	Yes	Yes	Yes	No	No
Limit the involvement of senior management to major disputes	Yes	Yes	Yes	No	No
Encourage leadership in developing relationship managers	Yes	Yes	Yes	No	No
Focus on localised and informal dispute resolution as first step	Yes	Yes	Yes	No	No
Deal with personality conflicts quickly and ethically	Yes	Yes	Yes	No	No
Utilise weekly meetings between supplier and organisation to resolve disputes	Yes	Yes	Yes	Limited	Limited

Phase Four analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Establish and maintain a supplier monitoring performance regime					
Monitor regularly and efficiently the contracted performance standards	Yes	Yes	Yes	Limited	Limited
Maintain and open and transparent process of monitoring contract performance	Yes	Yes	Yes	Limited	Limited
Engage in objective performance monitoring based on evidence to substantiate claims	Yes	Yes	Yes	Limited	Limited
Attributes of proper performance monitoring in place	Yes	Yes	Yes	Limited	Limited
Partnering approach as the thrust of the working relationship					
Nuture a partnering and alliance mindset that is reflected in the day to day activities	Yes	Yes	Yes	No	No
Avoid a 'we and us' versus 'you and them' mentality	Yes	Yes	Yes	No	No
Engage in partnering and alliance building activities	Yes	Yes	Yes	No	No
Continually renegotiate contract terms with supplier in the light of new information					
Outsourcing a process of negotiation and renegotiation	Yes	Yes	Yes	No	No
Provide for flexibility not rigidity as the key	Yes	Yes	Yes	No	No
Act on lessons from performance monitoring	Yes	Yes	Yes	No	No
Adopt quantitative and qualitative measures as suitable	Yes	Yes	Yes	No	Yes
Ensure reward and penalty discussions open book and transparent	Yes	Yes	Yes	No	No
Employing independent dispute resolution for impasse	Yes	Yes	Yes	Yes	Yes
Act fairly on penalties and rewards in outsourcing contract					
Set performance hurdles fairly and clearly	Yes	Yes	Yes	No	No
Utilise objective data to determine performance bonuses or penalties as applicable	Yes	Yes	Yes	Limited	Limited
Qualitative measures are likely to be subject to dispute	Yes	Yes	Yes	No	No

Phase Four analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Mediate disputes on performance rewards and penalties in an open book and transparent manner	Yes	Yes	Yes	No	No
Utilise independent dispute resolution as necessary	Yes	Yes	Yes	No	No
Provide proper strategic direction to the supplier					
Holding strategic direction discussions with suppliers	Yes	Yes	Yes	No	No
Being open and honest about organisation's strategic direction	Yes	Yes	Yes	No	No
Take into account legal and confidential obligations but sharing of strategic information builds trust	Yes	Yes	Yes	Limited	Limited
Disclose strategic direction in manner assists supplier in making operational decisions	Yes	Yes	Yes	No	No
Allow for supplier feedback and commentary to strategic decisions	Yes	Yes	Yes	No	No
Audit continually assets, data and files held by supplier					
Continual process of monitoring and audit	Yes	Yes	Yes	Limited	Yes
Assisting with need to transfer back assets, files, data etc	Yes	Yes	Yes	No	No
Act quickly on matters discovered in audit	Yes	Yes	Yes	No	No
Implement suitable contingency strategies where poor performance exists					
Develop a contingency plan as soon as poor performance is ongoing or appears entrenched	Yes	Yes	Yes	No	No
Assess options and perform/implement contingency strategies deemed appropriate	Yes	Yes	Yes	Limited	Limited
Decide on course of action to take	Yes	Yes	Yes	Limited	Limited

Table 6.2 : Phase 4 Analysis : Case Study Performance

The tasks and activities relevant to the contract management phase (Phase 4) are:

6.3.1 Manage stakeholder expectations in relation to outsourcing arrangement

Different stakeholders will have different and at time unrealistic expectations of what is expected in a real estate outsourcing contract. Therefore stakeholder expectation

management is critical to an orderly outsourcing arrangement. The tasks and activities to consider in managing expectations as required by the framework are as follows:

Manage perceptions and misconceptions from stakeholders to focus on real objectives, aims and scope of outsourcing arrangement

Stakeholder perception for case A was not well managed. Supp A-4 and Int A-4 agreed that for most of the contract life, stakeholder expectation management was poorly implemented. Supplier A-4 provided examples of repair requests from business units were often not followed in the correct manner and often two or more requests for the same repair problem was initiated. The tendency for business units to initiate repair requests in an ad hoc manner was a “relic from the past” according to Int A-4 and not properly dealt with by supplier and organisation to change behaviour. Similarly, stakeholder expectations were poorly managed in the case of organisation C. Business units believed that they had the “right to choose all furniture and office partitions in the case of new fitouts” according to Int C-4 despite the cost of their choice being over the budget set for the project. According to Int C-4, there was a failure to address this problem and sell the new approach in a positive light as the new approach produced a “quicker and more cost efficient fit out solution” according to Int C-4. Stakeholder expectation management was considered to be better managed for cases B, D and E. None of these cases reported any conflict with stakeholder expectation management and for the most part stakeholders did not have unrealistic expectations of the nature of the outsourcing contract (Int B-3, Int D-4, Int E-4).

Focus on performance criteria established within the contract

The successful cases had strong reporting of contract performance results during the outsourcing contract term. Organisation D in particular had strong performance reporting derived from the supplier system that tracked call centre inquiries, work jobs, actual to budget property cost variances, project budget to actual cost and reported variances on set performance standards for the outsourcing contract as a whole (Int D-4, Doc D-10). The supplier and organisation met on a monthly basis to discuss contract performance for organisation D (Int D-4, Supp D-4). Organisations B and D had monthly performance reports provided by the supplier (Int B-3, Int D-4, Supp B-3, Supp D-4). Int B-3 and Supp B-3 confirmed that monthly meetings had strict agendas and the performance reports were the main discussion point. For organisation E, the organisation operatives and other stakeholders had online access to the supplier system which gave daily updates on property management and facilities management activity and performance against standards set in the contract. Therefore according to Int E-4, the focus was on performance criteria and the information was available on a timely basis. For the unsuccessful cases, the focus was often on matters outside of

performance monitoring. Int A-4 and Supp A-4 lamented that monthly review meetings would devote significant time to trivial matters. Supp A-4 gave the example of a business unit complaint for poor lawn maintenance for a small country branch was made according to Supp A-4 into a “royal commission” by organisation A. Int C-3 considered for organisation C the quality of reporting was poor from the supplier and therefore it was difficult to understand and track performance for the contract.

Educate stakeholder on service delivery and performance criteria as outlined in the outsourcing arrangement

The common message from cases B, D and E was that the education process with stakeholders had taken place during the transition phase and therefore during the contract phase, stakeholders were only required to be kept up to date with service performance (Int B-3, Int D-4, Int E-4). Therefore for the successful cases educating stakeholders on performance criteria was more of a maintenance requirement. Int A-4 accepted that organisation A did not succeed in educating its stakeholders on service delivery and performance criteria. He believed that the organisation A culture was that “you are responsible for your own contract performance and that it is not your job or duty to teach others”. Case C failed dismally in educating its stakeholders on the outsourcing contract’s service and performance standards. Int C-4 believed that “they did not persevere with business units” and therefore a chance was lost to educate them on contract performance standards.

Listen to the stakeholders

All cases had established feedback and complaint processes from stakeholders as part of the outsourcing contract management (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1). However, cases B and D had demonstrated follow up procedures and action plans in dealing with stakeholder complaints (Int B-3, Int D-4). Int E-4 commented that for organisation E stakeholder concerns and feedback were taken seriously and business units were promised acknowledgement of receipt of complaint within 24 hours and a preliminary reply within 3 days. Cases A and C appeared to have ad hoc approaches to stakeholder complaints. Int A-4 lamented that the lack of formal approach and action process did not endear the property division to business units. Int C-4 viewed the stakeholder complaints process as often being a “war of words between the property division and the business unit”.

Deal efficiently with stakeholder concerns

Cases B, D and E appeared better placed to deal efficiently with stakeholder concerns (Int B-3, Int D-4, Int E-4). Cases A and C struggled to deal efficiently with stakeholder concerns (Int A-4, Int C-3).

Insist on open and transparent dialogue between supplier and organisation and within organisation

Cases A and C appear to have had problems in striving for open and transparent dialogue between supplier and organisation. Supplier A-4 believed that the contract performance was compromised largely due to organisation A's desire to keep information away from the supplier. He stated that he and his team were "dismayed to see a major Sydney CBD property being placed for sale by an estate agent in the financial papers without their knowledge". Supplier C-4 also lamented that for organisation C business units would "put out major office leasing expression of interests to major commercial agents without our involvement". For cases B, D and E, the relationship between supplier and organisation appeared to be more open and transparent (Supp B-4, Int B-4, Supp D-4, Int D-4, Supp E-4, Int E- 4).

Monitor and report supplier performance in an open and transparent manner

The successful cases embodied the form and spirit of performance measurement and management in an open and transparent manner. Case B utilised performance reports prepared by the supplier in their monthly status meetings (Int B-4, Supp B-4). Case D had a quarterly independent review by its internal audit area of supplier performance and the results were presented to the supplier for comment and action (Int D-4, Supp D-4). Case E conducted quarterly stakeholder assessments of key property deliverables such as repair and maintenance response times. The results were presented to the supplier for comment and action (Int E-4, Supp E-4). Cases A and C did not have open and transparent performance monitoring. Supp A-4 commented that the New South Wales and Queensland divisions of organisation A particularly were unconstructive in their critique of supplier performance. He mentioned that every little matter was escalated by email and "all sorts of comments were made in the emails and copied and blind copied throughout the organisation". Supp C-4 described for organisation C the difficulty in working in an environment when "unsubstantiated statistics were compiled by business units as to length of time to attend to facility management issues".

Inhibitors

Unrealistic stakeholder expectations can compromise the working of the outsourcing contract. In particular, performance management and monitoring will not be open and transparent if stakeholders have unrealistic or incorrect views of the performance standards expected in the contract. Cases B, D and E dealt with these inhibitors in a more open and transparent manner, whereas cases A and C struggled to manage stakeholder expectations.

Deliverables

Cases B, D and E delivered performance management and monitoring in a manner that was open and transparent and managed stakeholder expectations. Cases A and C did not do so.

6.3.2 Create proper communication channels between organisation and supplier during contract management

Communication is a key consideration in properly managing a real estate outsourcing contract. The framework provides for the following actions to carefully create and manage communication:

Encourage timely and open communication between supplier and organisation stakeholder

Cases B and D had adopted good communication practices between supplier and organisation (Int B-4, Doc B-11, Int D-4, Doc D-10). In these two cases, supplier and organisation staff at the operational level were encouraged to communicate to senior management of supplier and organisation and other stakeholders on day to day operational matters. Case E encouraged the supplier to maintain open communication with franchisees and third party owners on property leasing matters without having to go through the property division (Int E-4, Doc E-10). Cases A and C were more restrictive. Organisation A allowed only supplier contact with stakeholders on low value facilities management issues (Int A-4, Supp A-4). Organisation C required the supplier to obtain permission from the organisation C property division for any contact it wished to make in respect to organisation C business units (Int C-4, Supp C-4). Supp C-4 believed that this impeded the speed of service delivery to major organisation C business units.

Focus on developing formal communication channels to properly manage the outsourcing arrangement

All cases had formal communication requirements embodied in the respective outsourcing contract (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1). Case A in particular had very detailed requirements in the contract on how communication and decision was to work between supplier and organisation.

Allow stakeholder input and provide feedback

As discussed previously, stakeholder input and feedback appeared ineffective in cases A and C. In contrast, cases B, D and E developed proper stakeholder input and feedback processes throughout the contract.

Minimise number of communication channels to ensure effective working relationships and not create bureaucracy and red tape

Cases B, D and E operated on the basis of empowering the operational organisation and supplier staff to make decisions and deal with stakeholders on an open and transparent basis (Int B-4, Supp B-4, Int D-4, Supp D-4, Int E-4, Supp E-4). Cases A and C restricted their respective supplier's ability to communicate with the broader organisation stakeholders. There appeared to be difficulties at times for case A in particular and to a lesser extent case C for the respective supplier to know who could make the decision. Supp A-4 lamented that "it was often difficult to know who could make a decision on a lease review outcome" or worse still there would be no communication back to the supplier until various persons within organisation A had made an assessment. This according to Supp A-4 frustrated the landlord and caused delay and expense.

Limit communication and deliberation to the minimum number of persons from the supplier and organisation

All cases had at least in the contract a formal communication process that limited communication and decision making to a defined number of persons (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1). However its implementation was not uniform. Supplier A confirmed that organisation A had changed its reporting structure to a northern and southern region which meant that the supplier had to do the same (Supp A-4). Cases B and D worked on the principle that each organisation staff member involved in the contract management had an opposite and equivalent staff member employed by the supplier (Int B-4, Int D-4). Case C adopted the communication hierarchy outlined in the contract (Int C-4). Int C-4 and Supp C-4 agreed that in hindsight that this structure required more persons involved from the organisation than should have been the case. Case E had defined its communication process, discretions and authorities during the transition phase and according to Int E-4, this process was consistent with the contract and worked well during the contract term.

Inhibitors

An inefficient communication process can create delays and add to cost of managing the contract. All cases had developed formal communication channels. Cases B, D and E appeared to have more effective and efficient communication channels than cases A and C.

Deliverables

Cases B, D and E appeared to have developed a “minimalist” communication strategy when compared to that developed in cases A and C. This assisted in enhancing communication performance for cases B, D and E when compared to cases A and C.

6.3.3 Address problems, conflicts and disagreements between organisation and supplier quickly

Conflict management is a part of any contractual arrangement. The framework provides for certain tasks and actions to deal with conflicts and disagreements. These are:

Small conflicts should not be allowed to escalate

There was evidence for cases B, C, D and E that small conflicts had escalated to impede the contract performance (Int B-4, Supp B-4, Int C-4, Supp C-4, Int D-4, Supp D-4, Int E-4, Supp E-4). However, Supp A-4 provided evidence of a variety of instances where especially organisation A's New South Wales division staff created “mountains out of molehills” that affected the morale of many of the supplier operatives servicing the outsourcing contract.

Do not sweat on the small stuff

There was no evidence for cases B, C, D and E of focus on small or trivial issues (Int B-4, Supp B-4, Int C-4, Supp C-4, Int D-4, Supp D-4, Int E-4, Supp E-4). However, Supp A-4 and Int A-4 acknowledged that there were times when small issues were taken too far. Supp A-4 gave an instance where the supplier was blamed for minor sun glare issues on several ATMs notwithstanding organisation A had signed off the locations.

Do not let disputes grow or remain unresolved

Case A handled dispute resolution badly. Despite the problems with New South Wales and Queensland staff being uncooperative and not providing the supplier files and other information, Supp A-4 stated that the supplier received little support from organisation A's senior management to rectify the problems and disputes. Supp A-4 commented for case A that “we had effectively two organisations, the Victorian property division worked well with us but the New South Wales division was a continual struggle with disputes and angst”. Case C could not deal with its major business units continually frustrating supplier initiatives on fitout out cost saving initiatives. Supp C-4 stated that “no sooner had we come up with an open plan fit out concept, we had to deal with comments from certain staff members on the design that were neither constructive nor helpful”. Supp C-4 and Int C-4 agreed that the organisation did not

deal with the problem business units effectively in managing disputes. There is evidence of senior management involvement in assisting with resolution of disputes in the cases of B, D and E (Int B-4, Supp B-4, Int D-4, Supp D-4, Int E-4, Supp E-4). Supp D-4 and Int D-4 made certain operational changes to their respective teams to resolve some personality conflicts and other disputes that had developed early in their contract term.

Limit the involvement of senior management to major disputes

Senior management involvement appears to have worked well in the successful cases to reduce disputes as outlined previously. For the unsuccessful cases, senior management involvement appears to have been missing in dispute resolution.

Encourage leadership in developing relationship managers representing suppliers or the organisation to resolve major disputes

There is evidence in cases B and E that organisation relationship managers took the front step in dealing with disputes with the supplier (Int B-4, Int E-4). Int B-4 mentioned that disputes were “not allowed to fester” and that a diary system was in place to track issues and problems with the contract and supplier. Int E-4 stated that its staff had dispute resolution as a key performance requirement. Organisation D required its staff to provide exception reports on all matters that were outside of the contract and required resolution including disputes and claims by the supplier. According to Int D-4, this meant that “our staff would not sit out problems but work with the supplier to resolve problems”. There is no evidence in discussions with supplier and organisation for cases A and C as to leadership of its respective teams to resolve disputes (Int A-4, Supp A-4, Int C-4, Supp A-4).

Focus on localised and informal dispute resolution as a first step

The contracts for all cases required dispute resolution to be implemented at the operational level before going to formal mediation and/or legal dispute resolution (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1).

Deal with personality conflicts quickly and ethically

Cases A and C appeared to clearly be unable to deal with personality conflicts quickly, effectively and perhaps in an ethical manner as personality conflicts between supplier and organisation representatives were left to fester (Int A-4, Supp A-4, Int C-4, Supp C-4). There was no evidence of inherent inability to deal with personality conflicts for cases B, D and E (Int B-4, Supp B-4, Int D-4, Supp D-4, Int E-4, Supp E-4).

Utilise weekly meetings between supplier and organisation to resolve disputes

Cases B and D utilised weekly meetings to discuss a number of matters including any disputes or unresolved issues between organisation and supplier (Int B-4, Supp B-4, Int D-4, Supp D-4). Case E had a fortnightly meeting with the supplier where a variety of issues were discussed. However, Int E-4 and Supp E-4 believed that given the small team managing the contract, dispute resolution and dealing with problems between supplier and organisation were handled as and when they arose and not necessarily at any formal meeting. There is no evidence that cases A and C viewed the weekly meeting as a basis to resolve supplier and organisation disputes (Int A-4, Supp A-4, Int C-4, Supp C-4).

Inhibitors

If disputes and personality conflicts between supplier and organisation cannot be resolved amicably and fairly then there is a chance that the outsourcing arrangement will be compromised. Cases B, D and E handled dispute resolution in a more effective and constructive manner. Cases A and C struggled to deal with personality and other disputes between supplier and organisation.

Deliverables

Cases B, D and E had both formal and informal processes to deal with supplier/organisation disputes and personality conflicts. Cases A and C had formal processes within the contract but at the contract operational level did not have an effective dispute resolution approach.

6.3.4 Establish and maintain a supplier monitoring performance regime

Monitoring supplier performance is an ongoing and critical process during the contract term. The framework provides a number of ways to effectively monitor supplier performance. These ways are:

Monitor regularly and efficiently the contracted performance standards

All cases undertook some form of performance monitoring. Organisation A felt constrained by the quality of the supplier's reports. Int A-4 commented that the supplier's monthly reports were comprehensive but difficult to follow and structured in a manner that would suit shopping centre operators and not a financial institution having a variety of property types. Cases B, D and E appeared satisfied with the quality of supplier reporting and the information received. Int B-4 complimented that supplier on the quality of its monthly performance reports. Int D-4 mentioned that organisation D analysed supplier performance data on a monthly basis and this enabled it to report to its senior management on a timely basis. Case C had a mixed experience with

performance monitoring. Int C-4 stated that its property lease transaction monitoring was often incomplete because of supplier poor reporting but the supplier seemed to report well on facility management performance such as repairs and maintenance.

Maintain an open book and transparent process of monitoring contract

performance with honest communication and feedback to supplier

There is no evidence that any organisation or supplier deliberately tried to mislead, however the successful cases had a more structured approach to providing feedback to the supplier on performance. Cases B, D and E kept the supplier informed on the organisation's views on performance and the likelihood of performance bonuses being paid (Supp B-4, Supp D-4, Supp E-4). However, Supp A-4 commented that the supplier was kept in the dark by organisation A as to its views on performance. The contract for case A provided for arbitration and mediation where either organisation or supplier thought that performance monitoring was being unfairly handled or a performance bonus was in dispute. Int A-4 and Supp A-4 saw this provision in the contract as being of little value as the performance regime in the contract was not well defined in any case. Supp C-4 complained that the organisation C would not make allowance for lease rentals that were negotiated in buoyant economic conditions. He believed that this "stacked the odds against the supplier in earning performance bonuses as the rentals were unlikely to be at market and in most instances the lease provided that the rental could not go down".

Engage in objective performance monitoring based on evidence to substantiate claims

Cases D and E had conducted on a regular basis (case D quarterly, case E half yearly) its own inquiries via questionnaire responses from business units to substantiate service and performance claims from the supplier (Int D-4, Int E-4). Case B conducted a random store inspection routine to gauge cleaning and maintenance performance (Int B-4). Cases B, D and E had a follow up and feedback regime with the respective supplier where faults discovered or assessed were required to be actioned by the supplier (Int B-4, Int D-4, Int E-4). Cases A and C adopted a more subjective approach to supplier performance. Supp A-4 stated that despite the contract having a right for the organisation to conduct routine site inspections, view supplier records and other monitoring initiatives, organisation A relied on stakeholder comments on property condition. Some of these comments were untrue according to Supp A-4. Case C conducted according to Int C-4, its own inquiries with its business units to follow up supplier facilities management performance. Supp C-4 commented that there were no structured discussions between supplier and organisation on findings in respect to the organisation's monitoring.

Attributes of proper performance monitoring involve:

- Ownership of performance monitoring obligation is with organisation not supplier (All cases assumed that the organisation owned the performance monitoring obligation in the contract (Int A-4, Int B-4, Int C-4, Int D-4, Int E-4).
- Start proper performance monitoring and review from the outset of the contract and ongoing for the term (Cases B, D, E had proper performance review from the outset. Cases A and Cs' performance monitoring was less effective).
- Adopt a standardised performance review instrument and consistency in reporting to stakeholders (Cases B, D and E had a structured approach and utilised a variety of performance review instruments to monitoring supplier performance and reporting to stakeholders. Cases A and C were less structured and had no formal stakeholder reporting regime on reporting to stakeholders).
- Provide early feedback to supplier and allow right of response from supplier (Cases B, D, E provided feedback to the supplier and allowed the supplier the right of reply. Cases A and C did not always provide feedback or otherwise work with the supplier on issues discovered from any supplier performance monitoring).
- Revise performance monitoring instrument if circumstances dictate or prior performance measures require revision (None of the cases deemed it necessary to revise their performance instrument).
- Utilise performance monitoring as learning tool for internal and external stakeholders (By conduct cases B, D and E utilised performance monitoring and reporting to stakeholders as a learning tool on supplier performance and contract expectations. Cases A and C did not have sufficient stakeholder reporting on supplier performance for this to occur)

Inhibitors

Performance standard monitoring requires a structured and objective approach. In addition, the supplier requires feedback and the right of reply including the requirement to take action on performance monitoring issues discovered by the organisation. Cases B, D and E addressed the inhibitors to successful supplier performance in a constructive manner. Cases A and C had a subjective, ad hoc approach to supplier feedback and action from supplier to address issues discovered.

Deliverables

Cases B, D and E had a structured, objective and workable supplier performance monitoring approach. Cases A and C did not have such an approach.

6.3.5 Partnering approach as the thrust of the working relationship

Partnering and alliance approach between supplier and organisation produces optimal outsourcing results. The framework provides that a partnering and alliance approach is enhanced by the following:

Nurture a partnering and alliance mindset that is reflected in the day to day activities

There is evidence that for cases A and C the relationship between supplier and organisation was anything but partnering. Int A-4 and Supp A-4 agreed that the contract was run and operated in a tense and often terse manner. Similarly for case C, Int C-4 confirmed the view of Supp C-4 that the contract operated in an “adversarial manner”. Cases B, D and E were run from the outset on partnering and alliance principles and the respective suppliers and organisation representatives confirmed this to be the case (Int B-4, Supp B-4, Int C-4, Supp C-4, Int D-4, Supp D-4).

Avoid a ‘we and us’ versus ‘you and them’ mentality

There is no evidence for this to be the cases for cases B, D and E (Int B-4, Supp B-4, Int D-4, Supp D-4, Int E-4, Supp E-4). Int A-4 confirmed that from the outset, the supplier and organisation A worked towards separate agendas. He stated that organisation A was quite upset with the attitude of the supplier where the supplier continually argued that several tasks requested for the supplier to perform was “out of scope” according to the supplier. Supp C-4 contended that organisation C never respected the abilities of supplier C in managing large scale leasing or sale transactions. This entrenched according to Supp C-4 a “we versus you” mentality in the running of the contract for case C.

Partnering and alliance building is enhanced by engaging in activities that assist in building partnership and alliances. Some these activities include:

- Social networking (Cases B and D had extensive social networking between organisation and supplier. Cases C and E had moderate social networking between organisation and supplier. Case A had little social networking between organisation and supplier).
- Joint training (Cases D and E conducted extensive joint training activities. Cases B and C conducted moderate number of joint training activities. Case A did not conduct joint training activities. In fact Supp A-

4 commented that it was difficult to get organisation A staff to system training activities conducted by the supplier let alone external training).

- Environment providing innovation and creation by supplier (Cases B, D and E provided the more conducive environment for innovation and creation by their respective supplier. Cases A and C had a restricted environment to allow for supplier innovation and creation).
- Reward innovation (The reward regime in the contract to reward supplier innovation was most conducive for cases B and D. Case E had some scope to reward innovation and cases A and C were restricted in their rewarding of supplier innovation. Infact Supp A-4 commented that organisation A viewed any such innovation as a “supplier duty” not wishing to appreciate let alone reward any innovation).
- Discretion and initiative from supplier (Cases B, D and E encouraged supplier initiative and discretion. The discretion to conduct the full scope of property and facilities management services was given to the supplier in cases B, D and E (Int B-4, Supp B-4, Int D-4, Supp D-4, Int E-4, Supp E-4). Despite the contract in cases A and C clearly requiring the supplier to conduct a variety of property management services, there is evidence that organisations A and C “cherry picked” the major property sale and leasing transactions that were continued to be run inhouse).
- Reward initiative (Cases B, D and E rewarded supplier initiatives to varying degrees. Cases A and C did not reward supplier initiative).
- Sharing of knowledge (Cases B, D and E were more open to information sharing. Cases A and C limited information to the supplier that was of a “strategic” nature. Supp A-4 commented that this “secrecy” did nothing to establish a partnering and transparent working relationship for case A.)
- Joint research (Apart from case D on council landscaping management research and to a minor extent case B in respect to store fitout materials research, there is no evidence in any of the cases of joint research between supplier and organisation).
- Shared research (Limited to cases D and B)

Inhibitors

Partnering and alliance requires continual work and performance of certain tasks. Cases B, D and E created and generally fostered a partnering and alliance culture. Cases A and C did not address the issues required to encourage partnering and alliance building.

Deliverables

Cases B, D and E delivered an outsourcing solution based on partnering and alliance principles. Cases A and C did not deliver an outsourcing solution based on partnering and alliance principles.

6.3.6 Continually renegotiate contract terms with supplier in the light of new information

The outsourcing contract terms and conditions may require updating throughout the contract term as new conditions or information comes to light. The framework considers a number of tasks are required to properly renegotiate contract terms :

Taking into account that the outsourcing process is ongoing and forever a negotiation and renegotiation of ways of working between supplier and organisation

While all contracts in the five cases had provision for renegotiation of contract terms and conditions, the actual experience was that only cases B and D altered some of the contract terms to reflect an updated working environment. Int B-4 confirmed that discretions and authorities were raised for the supplier. Int D-4 mentioned that an increased allowance was provided to the supplier to maintain council gardens and reserves due to the prolonged drought. Cases A and C viewed the contract as a legal document that was set in “cement” (Int A-4, Int C-4). Int E-4 believed that while the contract did not require changing, organisation E was fair and reasonable in considering changes if the circumstances so dictated.

Providing for flexibility not rigidity as the key - do not be hamstrung from past ways of working

Quite clearly, cases A and C adopted a rigid approach to dealing with contract issues and were the most least likely to vary the arrangement or adopt new practices (Supp A-4, Supp C-4). Cases B, D and E were more open to working with the supplier to deal with changing circumstances (Int B-4, Supp B-4, Int D-4, Supp D-4, Int E-4, Supp E-4).

Acting on lessons from performance monitoring

The successful cases better utilised performance monitoring to make improvements to the outsourcing arrangement. Int B-3 considered that utilising and paying its own retail staff to clean its provincial and remotely located retail sites saved organisation B significant monies. This initiative was derived after monitoring the poor performance of the supplier contracted cleaner. Similarly, case D initiated a number of office configurations as a result of performance monitoring of accommodation cost per staff member that were above best practice benchmarks (Int D-4). Similarly, case E revisited its space planning as part of supplier performance monitoring to reduce its total leased

area when according to Int E-4, the amount unoccupied had significant wastage and cost.

Adopting quantitative and quantitative measures as suitable for different measurement criteria

Cases B, C, D and E adopted in a number of quantitative and qualitative techniques to monitor performance of the contract (Int B-4, Int C-4, Int D-4, Int E-4). Case A had a less structured approach to monitoring supplier performance and therefore restricted its ability to assess changes to contract operations and/or terms or conditions (Int A-4, Supp A-4).

Ensuring reward and penalty discussions open book and transparent

The supplier in cases B, D and E received a performance bonus for cost savings and other performance initiatives conducted during the contract term. These bonuses were paid annually after review and agreement that conditions to pay the performance bonus had been met (Int B-4, Supp B-4, Int D-4, Supp D-4, Int E-4, Supp E-4). Cases A and C did not pay a performance bonus during the contract term. Int A-4 mentioned that the onus was on the supplier to justify the performance bonus in case A and accordingly there was an initial meeting at the end of year 1 but then there were no other meetings to review performance bonuses given the supplier believed it to be a “lost cause”. Similarly, Int C-4 mentioned that the supplier was aware on a monthly basis as to how it was tracking on performance bonuses and therefore there was no need for an annual review.

Employing independent dispute resolution process for impasse

All cases had contract terms and conditions that provided for independent dispute resolution (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1). None of the cases needed independent dispute resolution to resolve any dispute (Int A-4, Int B-4, Int C-4, Int D-4, Int E-4).

Inhibitors

The contract terms and conditions require review as conditions and circumstances change to ensure that the outsourcing arrangement caters for these changing circumstances. Cases B, D and E had a flexible attitude to addressing contract terms and conditions and changes to operations where required. Cases A and C were more rigid in this regard.

Deliverables

Cases B, D and E produced an outsourcing outcome that was flexible and responsive to changing conditions and circumstances. Cases A and C were not flexible or responsive to varying the contract arrangement.

6.3.7 Act fairly on penalties and rewards in outsourcing contract

The fair determination of rewards and penalties assists in gaining the supplier's confidence and trust. An unfair reward and penalty system may compromise supplier performance in any outsourcing arrangement. The framework provides for the following considerations in setting fair penalties and rewards in an outsourcing contract:

Set performance hurdles fairly and clearly

Supp A-4 believed that that performance hurdles set in the case A outsourcing contract were difficult if not impossible to achieve. Cost reduction bonuses were hindered by an already high cost structure prior to contract commencement and the performance bonus was determined in a convoluted manner according to Supp A-4. Supp C-4 commented that the case C outsourcing contract was rigidly set and used the baseline of organisation A's high cost structure at the time of contract commencement. Supp C-4 complained that the baseline cost included property division internal charge backs to business units and there was according to Supp C-4, "continual argument over the fairness of including these internal charge backs to determination of performance rewards". The successful cases had some common themes in setting performance hurdles. These were: the baseline cost had been set and agreed at the time of contract formation for purposes of paying performance bonuses, performance bonuses were paid for relative cost decreases as well as for absolute cost decreases of key cost items and the performance bonus was determined on a clearly defined basis set out in the contract (Doc B-1, Int B-4, Doc D-1, Int D-4, Doc E-1, Int E-4). There were no penalties determined as allowed under the respective outsourcing contract for the five case studies (Int A-4, Int B-3, Int C-4, Int D-2, Int E-4).

Utilise objective data to determine performance bonuses or penalties as applicable

Cases A and C utilised a variety of objective (costs incurred with third party substantiation) and subjective (charges determined by organisation) data in the determination of performance bonuses (Int A-4, Supp A-4, Doc A-1, Int C-4, Supp C-4, Doc C-1). Cases B, D and E utilised solely objective data to determine performance bonuses. These three cases did not use any data that was not paid directly by the supplier in performing tasks under the contract. This meant that there were no internal charge backs or non third party costs included in the determination of the total property

cost for determination of performance bonuses (Int B-4, Doc B-1, Int D-4, Doc D-1, Int E-4, Doc E-1).

Qualitative measures are likely to be subject to dispute and open to different interpretation

Int A-4 stated that business unit satisfaction surveys of supplier services were utilised in part for determination of performance surveys. Supp A-4 commented that the contract A was “unique” and that no other of its contracts has qualitative performance measures in the setting of performance bonuses. In addition, Supp A-4 believed that the contract was not clear as to how to measure client satisfaction. Similarly, case C allowed the business unit to determine when the repairs have been done to business unit satisfaction (Doc C-10). According to Supp C-4, this allowed business units to make the call as to when the repair job was completed and more often than not the repair was completed outside of stipulated completion times in the contract. Cases B, D and E did not utilise qualitative measures in the determination of performance bonuses as stipulated in the respective outsourcing contract (Doc B-1, Doc D-1, Doc E-1).

Mediate disputes on performance rewards and penalties in an open book and transparent manner

While all five cases provided in the respective outsourcing contract for mediation on rewards and penalties disputes there was no mediation or arbitration for any of the cases in respect to performance bonuses or penalties (Int A-4, Int B-4, Int C-4, Int D-4, Int E-4).

Utilise independent dispute resolution if agreement between supplier and organisation on performance reward or penalty matters is not able to be established.

Outside of formal contract mediation, there was no independent dispute resolution process for any of the five cases in respect to performance reward or penalty matters (Int A-4, Int B-4, Int C-4, Int D-4, Int E-4). However, Supp A-4 and Supp C-4 acknowledged that the availability of an independent dispute resolution service outside of formal contract mediation would be of assistance to suppliers in the case of confusing or misleading terms and conditions in respect to performance bonuses.

Inhibitors

Performance rewards and penalties are not easy tasks to complete. The more objective the performance measure the more likely that the result is acceptable to all parties. Cases B, D and E maintained objective performance measures and accordingly acted in a manner that was least in dispute with their respective supplier. Cases A and C utilised a number of subjective performance measures that resulted in dispute and ill feeling with their respective supplier.

Deliverables

Cases B, D and E approached and delivered performance rewards and penalties in a fair and reasonable manner that gained the trust and support of their respective supplier. Cases A and C appeared to adopt a performance reward and penalty assessment approach which created angst with their respective supplier.

6.3.8 Provide proper strategic direction to supplier

Suppliers cannot work in a vacuum and need to know that organisation's strategic direction on property matters to properly implement a real estate outsourcing contract. The framework provides that this is best achieved by:

Holding strategic direction discussions with suppliers

The successful cases encouraged discussion on strategic direction with their respective supplier (Int B-4, Int D-4, Int E-4). Int B stated that "our supplier would know before many of our own staff as to new sites and store closures". Int D-4 stated that "the closure of our maintenance depot was communicated to our supplier before the depot manager". Int E-4 commented that the business expansion plan was made known to the supplier so that the supplier could go and access sites in locations that were targeted for expansion". The situation is different for cases A and C. Int A-4 confirmed that the strategic direction of the organisation A's property assets was not readily shared with the supplier and then "begrudgingly". Int C-4 reiterated organisation C's view that the supplier is not a participant in the strategic direction setting of the organisation and that according to Int C-4, the "supplier was told only what it needed to know on new sites, refurbishment plans and proposed closures".

Being open and honest about organisation's strategic direction when communicating this with supplier

Cases B, D and E were considered to have adopted an open and honest approach in outlining strategic direction of the organisation's real estate holdings to their supplier (Supp B-4, Supp D-4, Supp E-4). Cases A and C as discussed previously were not open to sharing strategic direction with their respective supplier.

Taking into account legal and confidential obligations but understand sharing of strategic information builds trust and confidence between supplier and organisation

All cases had fiduciary and confidentiality obligations as part of the outsourcing contract (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1). However, cases B, D and E engendered trust and support from their respective supplier by having the supplier participate in discussions on real estate strategic direction (Supp B-4, Supp D-4, Supp E-4).

Disclosing strategic direction of organisation to supplier in a clear manner that allows operational decisions to be properly made by the supplier in the light of these strategic decisions

Cases B, D and E benefited from a closer working relationship with the supplier by disclosing strategic direction in a clear manner to their respective supplier (Int B-4, Int D-4 and Int E-4). For case C, there is evidence that not disclosing strategic direction may have incurred organisation C additional leasing costs. Supp C-4 mentioned that a business unit in organisation C committed on its own accord to some 1200 square metres of temporary office space for a new project team when the organisation had an equivalent amount of space vacant that could have been used by that business unit.

Allowing for supplier feedback and commentary to strategic decisions made

Cases B, D and E demonstrated that allowing the supplier to participate in strategic decision making can provide benefits. Int B-4 and Int E-4 praised their suppliers in providing them detailed feedback on the property aspects of strategic initiatives. Int B-4 considered that the supplier's property database and research skills were invaluable tools in their strategic decision making. Int D-4 mentioned the supplier's feedback as to construction cost and project timelines allowed the council to make more informed decisions on major strategic initiatives.

Inhibitors

Strategy and strategic actions are confidential to an organisation. However, the supplier cannot often maximise performance if is unaware of the strategic direction of the organisation it is providing services to. Cases B, D and E acknowledged legal and confidentiality sensitivities in disclosing strategic information. However, cases B, D and E shared strategic data and information with the supplier to enhance operations and build trust. Cases A and C appeared not to be able to deal with the sensitivities of disclosing strategic information to the supplier.

Deliverables

Cases B, D and E delivered an outsourcing outcome that was had strategic direction and operation performance in sync. This was not often the case for cases A and C.

6.3.9 Audit continually assets, data and files held by supplier on the organisations behalf including supplier integrity

Assets, data and files held by the supplier on the organisation's behalf require continual audit to ensure that the assets are able to be identified and located in the event that the supplier ceases performing services under the contract. The framework outlines the following tasks and activities:

Continual process of organisation to monitor and audit assets, data and files transferred to supplier

Cases A, B, C, D and E required under the contract an audit of assets, data and files belonging to the organisation and held at the supplier's premises (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1). However, Supp A-4 cautioned that this audit process was difficult to complete as organisation A had given incomplete files and therefore much of the data and files especially in respect to planning permits and past works to the property were still resident with the organisation. The other cases appeared to have satisfactory records of assets, files and data transferred to the supplier and owned by the organisation (Int B-4, Int C-4, Int D-4, Int E-4).

Continual audit process assists with any need to transfer back assets, data and files at expiry of contract or earlier if required

None of the case required the transfer of assets, data and files back to the organisation. However, cases B, C, D and E were in the best position to do so if required given the work performed by respective supplier and organisation to develop a proper computerised inventory in each case of the assets, files and data transferred to the supplier and owned by the organisation (Int B-4, Supp B-4, Int C-4, Supp C-4, Int D-4, Supp D-4, Int E-4, Supp E-4). Case A according to Int A-4 would have struggled to bring back assets in house given its details on assets, files and data transferred to the supplier were not properly documented from the outset.

Act quickly on any matters discovered in audit to ensure protection of assets, verification and integrity of data and files

Cases B and D identified early in the contract that many high value items such as computers, registers, office furniture, mobile plant were transferred without proper accounting and recording at the time of transfer (Int B-4, Int D-4). A computerised tag system was implemented to track assets for cases B and D (Int B-4, Supp B-4, Int D-4, Supp D-4). The paper files for case E had valuable historical data on planning permits and building works conducted for each of the stores. If these files were lost, the organisation would lose valuable information that could be used in future redevelopments of its stores. The supplier archived all relevant historical paper files and kept a detailed log of the contents of each archived box (Int E-4, Supp E-4). Cases A and C did not appear to address audit concerns in respect to assets, file location and integrity of data and files (Int A-4, Int C-4). Int A-4 considered the value of files and assets transferred to the supplier to not be material and Int C-4 similarly considered that it had scanned into organisation C's system all files provided to the supplier and therefore had a back up in case paper files were lost.

All five cases had their external auditors conduct annual reviews of system and integrity testing of supplier systems (Doc A-10, Doc B-11, Doc C-10, Doc D-12, Doc E-11). With the exception of case A, there appears to be no reportable outcomes of annual reviews of supplier systems integrity. A detailed exception and action report was provided in the first year of the contract to the supplier by organisation A's auditor on system integrity issues requiring attention (Int A-4, Doc A-10). The auditor for case A discovered that since outsourcing inception several branch leases had Goods and Services Tax paid incorrectly or at times duplicated. Int A-4 stated that this was a costly and difficult exercise to fix as it meant the supplier and organisation having to deal with "irate landlords who were not cooperative in helping us fix the problem".

Inhibitors

The audit and verification of assets, files and data owned by the organisation and transferred to the supplier requires consideration of materiality and importance. For cases B, D and E the process was relatively streamlined and effectively monitored assets and files. Case A file audit was compromised because the information transferred to the supplier was incomplete in the first instance. All cases had conducted annual audits of supplier systems and data integrity.

Deliverables

All cases had conducted asset, files and data audit to varying degrees and cases B, D and E appeared to have utilised various technologies and approaches to effectively monitor organisation owned assets, files and data transferred to the supplier.

6.3.10 Implement suitable contingency strategies where poor performance exists

Poor performing contracts need contingency strategies to be considered and implemented as required. For the study, cases A and C were considered to have sub optimal outsourcing results. Therefore the consideration of contingency plans was more relevant to these cases and certain strategies would have been required to have been taken according to the success factors framework. The framework has outlined:

Develop a contingency plan as soon as poor performance is ongoing or appears entrenched without resolution

Neither organisation A nor organisation C took steps to developing a contingency plan despite both organisations being unhappy with their outsourcing outcomes (Int A-4, Int C-4). There were several reasons given for this. Int A-4 believed that organisation A's senior management were hopeful that performance would improve over the contract term. Int C-4 reasoned that many of the proponents of real estate outsourcing were still

with organisation C and did not want to “lose face” by proposing anything other than continuing with outsourcing.

Assess options and perform/implement contingency strategies deemed appropriate that will:

- transfer back to organisation previously outsourced activities (Case A and C concluded that transfer real estate services back inhouse was not feasible (Int A-4, Int C-4).
- consider all risks including to reputation/business continuity/service delivery (For both cases A and C, there appeared to be no urgency to do anything as long as the core business continued. Int A-4 considered that as long as the “basics were completed” then contract would continue albeit in an unsatisfactory manner”. Similarly, Int C-4 thought that as long as the core operations continued then “life would go on”. Reputational risk was critical to organisation C. However Int C-4 believed that the reputational risk to organisation C from the poor performance of the outsourcing contract was not material).
- refer to contract and act in strict accordance with contract (Int A-4 mentioned that it had asked its legal advisers to review the contract to determine its options to terminate the contract for poor performance. No action was taken on the legal advice).
- research the industry for options and other suppliers who could assist in the interim (There is no evidence that case A or case C researched the industry for options and other suppliers to take over the contract (Int A-4, Int C-4).
- consider the urgency of the matter – do not stall on action (Cases A and C appeared to have stalled as to action to take in dealing with a non performing contract (Int A-4, Int C-4).

Decide on the course of action to take

Case A replaced its contract manager with just over 6 months left on the contract. Int E-5 confirmed that he was appointed to “sort the contract out without any real direction set by senior management”. Case C appeared unable or unwilling to take any action. Int C-4 commented that the view of senior property division staff was that the alternatives to the current contract were “too difficult” to consider ahead of contract expiry.

Inhibitors

Contracts that are poor performing need action to be taken and a contingency plan. There are practical reasons why contingency plans are difficult to implement when

there is poor performance from an outsourcing contract. The cost, time and trouble of considering alternatives may restrict options. However, a proactive attitude to do something from the organisation experiencing a poor contract is required. Cases A and C appeared unable to deal with inertia and reluctance to take action or otherwise develop a workable contingency plan.

Deliverables

Cases A and C did not develop a suitable contingency plan or strategy to deal with poor performing outsourcing contracts.

6.3.11 Milestones – Phase 4

The framework provides for certain milestones to be completed during phase 4 of the outsourcing process. A summary of these milestones and the results for each phase are outlined below:

- Policies and procedures established for managing the contract (achieved for cases A, B, C, D and E, however cases B, D and E had more effective and efficient policies and procedures for managing the contract)
- Expectations of stakeholders and senior management managed (achieved for cases B, D and E, not achieved for cases A and C)
- Dispute resolution process in place (achieved for cases B, D and E, not achieved for cases A and C)
- Performance monitoring and rewards and penalties (achieved for cases B, D and E, not achieved for cases A and C)
- Continual renegotiation and evaluation of contract terms (achieved for cases B, D and E, not achieved for cases A and C)
- Contingency plan for poor performance (not relevant for cases B, D and E, not achieved for cases A and C).

6.4 Phase 5: Contract Expiry

The contract expiry phase is the last phase of the outsourcing process and is the phase where the contract on expiry is either renegotiated, terminated, another supplier chosen or the property services transferred back in house. The following table outlines the phase 5 (contract expiry activities) for the successful versus the unsuccessful cases:

Phase Five analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Review outsourcing and other options including transfer back inhouse around 12 months from expiry of outsourcing contract					
Provide for ample time (12 month prior to expiry) to consider options on expiry	No	Yes	No	No	No
Act in accordance with contract conditions regarding expiry	Yes	Yes	Yes	Yes	Yes
Conduct analysis and review of outsourcing as per Phase 1	Yes	Yes	Yes	Yes	Limited
Appoint a contract review team – multi disciplinary	Yes	Yes	Yes	Yes	Yes
Review objectives, aims and drivers of outsourcing in the light of outsourcing contract arrangement					
Revisit drivers and objectives of outsourcing	Yes	Yes	Yes	Yes	No
Assess business and industry changes and effect on outsourcing	No	No	No	No	No
Align business goals with aims and objectives of the outsourcing arrangement	Yes	Yes	Yes	No	Limited
Allow stakeholder input as per phase 1 to review of objectives and drivers of outsourcing	Yes	Yes	Yes	No	No
Review alternatives to outsourcing, current best practice and alternative suppliers now available in market place					
Research and consider all options	Yes	Yes	Yes	Yes	Limited
Identify what is industry best practice for outsourcing	Yes	Yes	Limited	Limited	Limited
Follow industry trends	No	No	No	No	No
Research who has entered the market since inception of contract	Yes	Yes	Yes	Yes	No
Identify other options now available	Yes	Yes	Yes	Yes	Yes
Review base line costs on a total cost basis based on outsourcing experience					
Adopt a total cost approach to deriving new base line based on outsourcing experience	Yes	Yes	Yes	Limited	No
Prepare and compare different baselines for different options	Yes	Yes	No	Yes	No
Risk and return analysis					
Complete DCF analysis, evaluation	Yes	Yes	No	No	No

Phase Five analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Have review team assess risk and return profile for each option	Yes	Yes	Yes	Yes	No
Obtain senior manager buy into decision recommended by review team					
Procure senior manager buy in to decision recommended by the review team	Yes	Yes	Yes	Yes	Yes
Obtain resources and instill cooperation from all stakeholders	Yes	Yes	Yes	Yes	No
Manage negotiation or renegotiation process allowing for competitive tension between suppliers					
Adopt the phase 2 principles of successful tendering and negotiation	Yes	Yes	Yes	Limited	Limited
Maintain competitive tension between suppliers	Yes	Yes	Yes	Yes	Yes
Ensure current supplier does not see contract extension as a formality	Yes	Yes	Yes	Yes	Yes
Consider risk issues not just cost in the evaluation of tender	Yes	Yes	Yes	No	No
Announce the decision but continuity of business is imperative	Yes	Yes	Yes	Yes	Yes
Manage file, data, asset and system transfers as part of an organised transition process	Yes	Yes	Yes	No	No
Communication strategy and publicity management					
Take into account broader communication needs to stakeholders and external suppliers	Yes	Yes	Yes	Yes	Yes
Focus on positive benefits and meeting of organisational objectives	Yes	Yes	Yes	Limited	Limited
Address misconceptions of outsourcing arrangement with stakeholders and affected third parties	Yes	Yes	Yes	Limited	Limited
Manage media speculation about outsourcing arrangement	Yes	Yes	Yes	No	Yes
Adopt communication principles espoused in phase 2 in respect to communication with stakeholders and affected third parties	Yes	Yes	Yes	No	Yes

Phase Five analysis	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
A repetition of the transition phase but slightly different focus if a new supplier chosen	Yes	Yes	Yes	Yes	Yes
Consider third parties in transition to new supplier	No	No	No	No	No
The possibility for a new beginning – staying with the incumbent supplier					
See the new relationship as a new beginning	Yes	Yes	Yes	Yes	Yes
Look at ways to improve the process	Yes	Yes	Yes	Yes	Yes
Consider changing environment	Yes	Yes	Yes	Yes	Yes
Reassess staff and management personnel	Yes	Yes	Yes	Yes	Yes
Refocus partnership principles	Yes	Yes	Yes	Yes	Yes
Review performance and service standards in the light of past history and what is achievable	Yes	Yes	Yes	Yes	Yes

Table : 6.3 Phase 5 Analysis : Case Study Performance

The framework outlines a number of tasks and activities required to be completed during phase 5. These are:

6.4.1 Review outsourcing and other options including transfer back inhouse around 12 months from expiry of outsourcing contract

Sufficient time is required for the organisation to review its option prior to contract expiry. The framework suggests 12 months prior to contract expiry is the best time to commence the review process and in addition recommends the following tasks and activities to consider:

Provide for ample time (12 month prior to expiry is suggested) to consider options on expiry - do not be left with no option but to renew because of leaving evaluation of options to the last moment

Case D commenced its review of outsourcing options some 12 months ahead of contract expiry (Doc D-12, Int D-4). Case B commenced around 9 months prior to contract expiry (Doc B-11, Int B-4). Cases A and E commenced its review process around 6 months ahead of contract expiry (Doc A-11, Int A-5, Doc E-12, Int E-4). Case C commenced its review process four months ahead of contract expiry (Int C-4). Interestingly, Int A-5 considered 9 to 12 months prior to contract expiry a more realistic timetable given the amount of work required to assess options prior to expiry.

Act in accordance with contract conditions in respect to contract expiry and deal with options allowed or expected to be followed in contract

The five cases had provisions in the contract that handled contract expiry (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1). All cases provided for a month to month continuation of the contract beyond expiry date automatic for varying periods of time (Doc A-1, Doc B-1, Doc C-1, Doc D-1, Doc E-1). The rationale was to allow a transition time should a new supplier be appointed. Case B had an option condition in the contract that required the option to be exercised no later than three months prior to contract expiry (Doc B-1). The other contracts allowed the contract to proceed to expiry without commitment to the incumbent supplier.

Conduct analysis and review of outsourcing as per Phase 1 - business case, base line, SWOT etc

Case D conducted a detailed review of outsourcing performance and the options available for organisation D including transfer back inhouse (Int D-4, Doc D-12). Out of the five cases this was the only case with a detailed business case assessing base line costs, options, strengths/weaknesses and discounted cash flow analysis. Cases A, B and E prepared discussion papers of various lengths that were circulated to senior management on the options and pros and cons of each options (Doc A-11, Doc B-13, Doc E-12). Cases A and B had included revised property cost baselines in their discussion papers. Case B's discussion paper focused on whether the option available in the contract should be taken up and if so on what conditions (Doc B-13). Case E's discussion paper assessed the performance of the supplier in meeting the aims and objectives established at the outset of the contract (Doc E-12). Int C-4 stated that organisation C's executive management directed that the tender process and selection of the supplier should take no more than 4 months. Accordingly, for organisation C, the focus was on completing the tender process.

Appoint a contract review team – multi disciplinary to review results of the outsourcing experience and form a view on the options to pursue

Formal contract review teams were established in cases A, B, D and E (Int A-5, Int B-4, Int D-4, Int E-4). The tender process for case C was coordinated by the staff handling the outsourcing contract with assistance from its procurement division (Int C-4, Doc C-12). Organisation A engaged the services of a specialist outsourcing consultant to assist organisation A with the contract review and assessment process (Int A-5). None of the other cases engaged an external consultant to assist with the review process.

Inhibitors

Time constraints impose difficulties in performing an adequate review. Cases B and D allowed 9 to 12 months respectively before contract expiry to conduct the review and provide details to senior management. This appeared to be a more realistic timetable to properly complete a review, assess options and

Deliverables

All cases with the exception of case C conducted a review of outsourcing and options available.

6.4.2 Review once again the objectives, aims and drivers of outsourcing in the light of the outsourcing contract performance

The framework provides that the contract expiry phase is an opportune time to revisit the original aims, objectives, aims and drivers of outsourcing. This is achieved by completing the following tasks:

Revisit the drivers and objectives of outsourcing now compared to at inception of the outsourcing arrangement

With the exception of case C, all other cases considered the drivers and objectives of outsourcing in their review of outsourcing. Cases B, D and E formed the opinion that the original drivers and objectives favouring outsourcing had not altered in their particular situation (Int B-4, Int D-4, Int E-4). Int A-5 commented that the review allowed organisation A to consider the drivers and objectives of outsourcing in a manner that was lacking when the contract was first entered into. Case C did not focus on drivers and aims of outsourcing as its aim was to continue with outsourcing as a concept (Int C-4).

Assess business and industry changes and effect on outsourcing going forward

For all cases, the business and industry environment had not changed materially from when the initial outsourcing contract was entered into (Int A-5, Int B-4, Int C-4, Int D-4, Int E-4). In fact the common theme among the supplier was that work place environment law and its increased regulation favoured outsourcing as a concept (Supp A-4, Supp B-4, Supp C-4, Supp D-4, Supp E-4).

Align business goals with the aims and objectives of the outsourcing arrangement

Cases B, D and E were comfortable with business goals being aligned to the aims and objectives of the outsourcing arrangement (Int B-4, Int D-4, Int E-4). Int A-5 questioned some of the original business premises and goals that drove the original outsourcing arrangement. Int C-4 did not confirm this to have occurred for case C.

Allow stakeholder input as per phase 1 to the review of objectives and drivers of outsourcing

Cases A, B, D and E worked with their respective stakeholders to gauge stakeholder comment on their experience with outsourcing of corporate real estate functions and what they wanted changed (Int A-5, Int B-4, Int D-4, Int E-4). Case C had little engagement with stakeholders during the review of outsourcing at contract expiry (Int C-3).

Inhibitors

The contract expiry review allows for a reassessment of outsourcing objectives and aims. In particular it provides that stakeholder feedback is important. With the exception of case C. all other cases reassessed their drivers and aims for outsourcing. For the successful cases this was a relatively easy process. For case A this was more involved.

Deliverables

Cases A, B, D and E completed an assessment of outsourcing drivers and objectives with stakeholder input as part of the contract expiry review process.

6.4.3 Review alternatives to outsourcing, current best practice and alternative suppliers now available in the market place

The contract expiry review process allows consideration of best practice and new entrants to corporate real estate outsourcing. The framework requires that the following are considered:

Research and consider all options

Case C limited its option to continuation of outsourcing albeit not necessarily with the same supplier (Int C-4). Cases A, B, D and E considered reverting to an in house option as well as continuation with outsourcing with and without their incumbent supplier (Int A-5, Int B-4, Int D-4, Int E-4).

Identify what is industry best practice for outsourcing

All cases now had more detailed information to assess industry best practice. Cases B and D provided an analysis to senior management on their outsourcing performance versus industry benchmarks as to supplier response times, cost of outsourcing per staff member and other statistics that was available in the public domain (Int B-4, Int D-4). The concern of cases A, C and E was on their own respective contract and there was more focus on improving supplier performance in their current contract (Int A-5, Int C-4, Int E-4).

Follow industry trends

It is common over the last two years for real estate outsourcing to have split supplier relationships. One supplier concentrates on facility management and another supplier concentrates on property management (Supp A-4, Supp D-4). The rationale is that the organisation will have the best operator in each category rather than engage one supplier who may not be as competent in all areas of property and facilities management. However, none of the cases had any desire to follow this trend (Int A-5, Int B-4, Int C-4, Int D-4, Int E-4).

Research who has entered the market since inception of contract

To the dismay of cases A, B, D and E, the number of participants offering real estate outsourcing services actually decreased since inception of their contract (Int A-5, Int B-4, Int D-4, Int E-4). Int C-4 commented that the view of senior management at organisation C was that suitable suppliers were “limited” and therefore it was not advisable to prolong the supplier selection process.

Identify other options now available

None of the cases considered transfer back in house of property and facility management services that have been outsourced as feasible (Int A-5, Int B-4, Int C-4, Int D-4, Int E-4). The consensus among the five case studies is that there are perhaps even less options for larger organisations wishing to outsource corporate real estate (Int A-5, Int B-4, Int C-4, Int D-4, Int E-4).

Inhibitors

While there are difficulties in gaining information on best practices and new suppliers entering the market, the reality is that all of the cases faced a restricted number of suitable suppliers able to provide the property and facility management services required by the organisation.

Deliverables

All cases assessed their situation and worked with one option that favoured outsourcing. Other options such as split supplier relationships were considered and dismissed.

6.4.4 Review base line costs on a total, cost basis based on outsourcing experience

Baseline cost assessment is critical to the outsourcing arrangement as it will drive performance monitoring and rewards and penalties in the outsourcing contract. The framework provides for:

Adopt a total cost approach to deriving a base line revised taking into account the outsourcing experience

Cases A, B, D and E assessed its revised base line adopting a total property cost approach based on actual costs derived during the term of the outsourcing contract (Doc A-10, Doc B-11, Doc D-12, Doc E-12). All direct property costs were included in deriving the baseline costs. For cases B, D and derivation of the base line costs for purposes of reviewing outsourcing was relatively easy given that the performance monitoring of supplier performance was consistent throughout the contract term (Int B-4, Int D-4, Int E-4). Int A-5 explained that derivation of the revised base line cost involved a “closer examination and dissection of costs than previously considered during the contract”.

Prepare and compare different baseline costs for the different options available to the organisation

Cases A, B and D examined different base line cost scenarios for the various options including an in house property and facilities management option (Int A-5, Int B-4, Int D-4). Int E-4 stated that organisation E did not prepare other base cost scenarios as “they were not relevant to their decision and any other scenarios would be significantly more costly in any case”. Case C only considered re tendering the contract and therefore did no base line analysis of different options.

Inhibitors

Derivation of base line costs on a total property cost approach is not straightforward as case A discovered. For cases B, D and E, derivation of revised base line costs was an easier process given its continual monitoring of supplier cost performance over the contract term.

Deliverables

An updated base line cost based on outsourcing experience was derived for cases A, B, D and E.

6.4.5 Risk and return analysis the key to which decision to make

Risk analysis of options is an important part of the contract expiry phase. The framework provides for risk during the contract expiry phase to be addressed as follows:

Complete DCF analysis, evaluation matrix, marginal cost analysis similar to phase 1 for different options

Cases B and D conducted a thorough evaluation of different options using discounted cash flow and marginal cost analysis. In addition, the reports provided to senior management had an evaluation matrix providing the risk for each option considered (Doc B-12, Int B-4, Doc D-13, Int D-4). Cases A and E presented detailed cost analysis and detailed commentary on the risks for each option. There was no discounted cash flow analysis undertaken on the options (Doc A-13, Int A-5, Doc E-12, Int E-4).

Have the review team assess risk and return profile for each option

Cases A, B, D and E conducted a detailed risk and return profile for each option in their report to senior management. The conclusion in each case was that outsourcing provided the best risk and return profile compared to other options including bringing the property management services back in house (Doc A-13, Int A-5, Doc B-12, Int B-4, Doc D-13, Int D-4, Doc E-12, Int E-4). Based on outsourcing experience, risk and return considerations were much easier to assess than at the inception of the contract (Int A-5, Int B-4, Int C-4, Int D-4, Int E-4). In addition, all five cases were more aware of the requirements of the tender and supplier selection process this time (Int A-5, Int B-4, Int C-4, Int D-4, Int E-4).

Inhibitors

Each option has a risk and return profile which requires assessment. The outsourcing experience made it easier for cases A, B, D and E to assess risk and return profiles for each option. The conclusion for these four cases was that continuation of outsourcing was the preferred option. Case C also continued with outsourcing.

Deliverables

Cases A, B, D and E were able to assess risk and return profile for each option based on actual outsourcing experience. All cases continued with outsourcing.

6.4.6 Obtain senior manager buy into decision recommended by review team

Senior management sign off to the decision made at contract expiry is a critical step. The steps to gain senior management approval under the framework are:

Procure senior manager buy in to decision recommended by review team

Executive management for case C directed that the contract be tendered and therefore according to Int C-4, management buy in was from the outset. Senior management approval and signoff to continuation of outsourcing and a tender program was given in cases A, B, D and E (Int A-5, Int B-4, Int D-4, Int E-4).

Obtain resources and instil cooperation from all stakeholders

Cases B, D and E considered that the process could be handled well with its existing team given the success of outsourcing, continuity of operations and knowledge of the tender process (Int B-4, Int D-4, Int E-4). Case A engaged an external outsourcing consultant to assist with the tender and supplier selection process. In addition, two retail branch representatives were seconded to be on the review and selection team for case A (Int A-5, Doc A-13). All cases advised their stakeholders of the proposed tender to select a supplier (Int A-5, Int B-4, Int C-4, Int D-4, Int E-4).

Inhibitors

Senior management support may be difficult to obtain for a variety of reasons. All cases had senior management support to the decision made by the review team. Case C was instructed by senior management as what action to take.

Deliverables

Each case had a defined path to take and stakeholders were informed of the proposed tender process.

6.4.7 Manage the negotiation or renegotiation process allowing for competitive tension between the suppliers tendering

Incumbent suppliers have an advantage in the tender process. However it is important that there is competitive tension to produce an optimal commercial outcome. This is achieved according to the framework by the following tasks and considerations:

Adopt the phase 2 principles of successful tendering and negotiation

This appeared relatively easy for cases B, D and E. Int B-4 believed that the experience and performance of their contract allowed them to effectively and efficiently produce tender documentation. Int E-4 elaborated that the “templates for tendering and supplier selection were already in place and so was the information to give to tender parties”. The situation for case A was not as straight forward. Int A-5 stated that “in hindsight we should have started the process at least 12 months prior”. He commented that “we had information gaps to deal with, a poor performing contract and we needed to start our tender documentation in a different light to when we first tendered”. Int C-4 explained that “a short form tender document” was used. According to Int C-4, senior management wanted a “quick tender process to not impact on business continuity”.

Maintain competitive tension between suppliers.

Competitive tension based on number of parties tendering was for cases A (5 parties tendering), C (6 parties tendering), D (4 parties tendering), B (4 parties tendering) and E (3 parties tendering) (Doc A-13, Int A-5, Doc B-13, Int B-4, Doc C-12, Int D-4, Doc D-14, Int E-4, Doc E-14).

Ensure current supplier does not see a contract extension or favourable result as a formality

Competitive tension encouraged as a result of:

- Dealing and involving as many suppliers as possible (This not always possible as there is a limited market for suppliers able to perform property outsourcing duties. All cases had between 3 to 6 parties including the incumbent tendering).
- Maintaining an open book transparent tender approach to encourage active participation by supplier (All cases attempted to encourage a transparent process (Int A-5, Int B-4, Int C-4, Int D-4, Int E-4).
- Keeping to an outlined timetable (Cases B, C , D and E maintained their stated timetable (Int B-4, Int C-4, Int D-4, Int E-4). Int A-5 commented that their program slipped some five weeks due to delays in completing and issuing tender documentation.
- Clarifying evaluation criteria (All cases had tender documentation outlining evaluation criteria (Doc A-12, Doc B-13, Doc C-12, Doc D-13, Doc E-13).
- Providing timely advice of tender fate or shortlist (Cases B, C, D and E completed its short list of two and selection of the successful tender within allocated timelines. The consensus from these cases was that the responses were clear cut and that the incumbent has an advantage and was seen as a lower risk (Int B-4, Int C-4, Int D-4, Int E-4). Case A initially opted for a short list of three but this was cut to two by the review team, albeit well outside of their allocated timelines. Int A-5 summarised the position as “despite having a poor performing contract, the decision to go to a new supplier was difficult and the team struggled with this concept, hence the time delays in considering this”.
- Giving the tender parties a clear perception that the tender is real by conduct and process of tender undertaken (There was some reluctance from suppliers in cases B and E to tender as they believed that the incumbent would be favoured (Int B-4, Int E-4). According to Supp E-4, the costs of tendering are significant and many suppliers carefully

assess whether it is worth tendering in the first place. The other cases did not have this problem (Int A-5, Int C-4, Int D-4).

Consider risk issues not just cost in the evaluation of tender

Cases A and C awarded the tender to the incumbent supplier notwithstanding that the outsourcing arrangement for both cases was deemed to be sub optimal. The decision was largely based on risk issues. Int A-5 believed that the tender demonstrated that “changing an incumbent supplier has two major risk issues”. Firstly, there was a “new supplier cost premium” where according to Int A-5, any new supplier will “generally want more money to take over the contract because of the time and trouble to establish the contract”. Secondly, there were many assessed risk issues with changing suppliers that made changing suppliers not feasible. Case C had similar concerns. Int C-4 stated that the supplier’s quote was in the middle of quotes received. He stated that the tender had introduced competitive tension. However organisation C had expressed concern with the risk issues pertaining to the lowest tender (around \$1.5million lower than the incumbent tender) and the highest tender was \$1.65million higher than the incumbent tender. Int C-4 believed that an incumbent supplier has an advantage in being able to address performance issues better than other suppliers and unless cost and risk issues are contained then it is difficult to move away from an incumbent supplier. Cases B, D and E as expected had the incumbent supplier tender at the lower end of tenders received (Int B-4, Int D-4, Int E-4). Int E-4 summarised the common theme for these three cases being that “the tender process was really to keep the cost of the incumbent supplier in check and transfer to a new supplier would be difficult when the contract has been run satisfactorily”.

Inhibitors

The reality is that competitive tension is restricted by the small number of prospective suppliers able to deliver property and facility management services. All cases managed to maintain some form of competitive tension despite the small number of suppliers participating in the tender process. Risk issues determined the result more so than cost considerations.

Deliverables

All cases with the exception of case A completed tender documentation and the supplier selection within allocated timelines.

6.4.8 Announce the decision but continuity of business is imperative

The five cases reappointed their incumbent supplier (Int A-1, Int B-2, Int C-3, Int D-2, Int E-2). Accordingly, the framework's approach to business continuity and handover issues when a new supplier is appointed were not required in the five cases studied.

6.4.9 Manage file, data, asset and system transfers as part of an organised transition process

Transfer of files, data, assets and system risk was not an issue for the five cases given the incumbent supplier continued with the contract.

6.4.10 Communication strategy implemented – publicity management a key requirement at contract expiry

Communication is important to inform and reduce uncertainty that any tender process produces to the broader organisation and other stakeholders. The framework provides for the following guidelines on managing communication during the contract expiry phase:

Take into account the broader communication needs to stakeholders and external suppliers

All cases informed their stakeholders and external suppliers of the tender process (Int A-5, Int B-4, Int C-4, Int D-4, Int E-4). The challenge for case A was to gain the confidence of its stakeholders. Case A focused on gaining stakeholder confidence in an outsourcing arrangement that in their minds had not met their needs. Int A-5 stated that meetings were held with business unit heads to discuss how to go forward. Cases B, D and E had established a good working relationship with its business units and stakeholders and consistent with the view of Int B-4, they had already established "outsourcing as a workable process with their stakeholders". Case C had an advantage this time that its "difficult" business units and the property division were now part of the same shared services division within organisation C (Int C-4).

Focus on positive benefits and meeting of organisational objectives in respect to the decision made regarding outsourcing

Cases B, D and E had performing outsourcing contracts and liaising with their stakeholders was relatively straightforward, given their stakeholders had accepted the outsourcing arrangement as being positive for the organisation (Int B-4, Int D-4, Int E-4). Case A according to Int A-5 required a "harder sell" to stakeholders. Int A-5 mentioned that the consultant organised half day and full day workshops with selected stakeholders and senior management on outsourcing as a concept and what was

required for successful property outsourcing. For case C, Int C-4 stated that with the same executive manager in charge of the property and other procurement divisions, it was easier this time to obtain stakeholder buy in this time.

Address misconceptions of outsourcing arrangement with stakeholders and affected third parties

Case A had to address stakeholder misconceptions especially in respect to supplier performance as to what was feasible in the contract and what was not (Int A-5). Although, senior management support was important, the fact that property costs were now charged back to business units required business units to now understand what outsourcing of real estate meant to them according to Int A-5. Case C was assisted because the same executive manager was in charge of the property division and major retail network divisions. According to Int C-1, real estate outsourcing was now “entrenched concept within the shared services division and required all business units within that division to understand and accept the arrangement”. Cases B, D and E had no stakeholder or third party misconception issues (Doc B-6, Doc D-7, Doc E-5). The common theme for these cases was that the “contract performance had done its talking and there was nothing further to sell to our stakeholders”, a view espoused by Int D-4.

Manage media speculation about outsourcing arrangement

Case A had the most media speculation to contend with. Int A-5 confirmed that a major Australian financial newspaper had announced prior to formal announcement the wrong party and had suggested a wrong contract amount much understated in its reporting of the case A tender. This caused severe embarrassment and unease among third party suppliers fearing a change to their tenure with an appointment of a new supplier according to Int A-5. Organisation A issued a media statement to correct this inaccuracy and corresponded with its largest contractors to correct the newspaper article. Fortunately there were no media speculation issues for cases B, C, D and E (Int B-4, Int C-4, Int D-4, Int E-4).

Adopt the communication principles espoused in phase 2 in respect to communication with stakeholders and affected third parties

Notwithstanding that the incumbent supplier was selected, cases B and D had a formal communication strategy in announcing the incumbent supplier as being successful. All business units and third party stakeholders were informed of the decision, the reason for the decision and any matters relevant to their business unit (Int B-4, Doc B-13, Int D-4, Doc D-13). Case E circulated an announcement of the awarding of the tender to the incumbent supplier to all stakeholders including third party stakeholders. According to Int E-4, “there were no staff issues or transfer considerations to address this time

and giving business units a feeling of business as usual was our goal". Case C review team derived a two staged communication strategy according to Int C-4. The initial stage was the executive manager to announce the tender result with a second stage being a morning workshop with all business units to discuss the real estate outsourcing contract. Int C-4 stated that the supplier was involved in the work shop.

Inhibitors

There is little an organisation can do about false media reporting. Case A addressed this in a timely and effective manner. For all cases, a proper communication strategy directed to stakeholders during the contract expiry stage is important. All cases addressed communication as part of the contract expiry phase of the outsourcing process.

Deliverables

All cases developed an effective communication strategy during the contract phase.

6.4.11 A repetition of the transition phase but with a slightly different focus if a new supplier is chosen

As all five cases selected the incumbent supplier, there was no transition phase to a new supplier.

6.4.12 Consider third parties in the transition to new supplier

As all five cases selected the incumbent supplier, there was no third parties transition issues required to be considered.

6.4.13 The possibility for a new beginning – staying with the incumbent supplier

All five cases selected the incumbent supplier. Some of the suggested ways to achieve this are:

See the new relationship as a new beginning

Cases A and C saw the relationship as a new beginning. Supp A-4 commented that organisation A had a change of strategy and direction when new personnel were appointed to manage the contract some six months prior to expiry. Int A-4 stated that the new divisional director had a different view on supplier relationships and addressed many of the systemic outsourcing management problems "head on". Int C-4 believed that the creation of a shared services division within organisation C created a more conducive environment to working with third party suppliers as all outsourcing and procurement for organisation C was conducted through this division. The other three

cases essentially saw their relationship with the incumbent supplier as “business as usual” (Int B-4, Int C-4, Int D-4, Int E-4).

Look at ways jointly to improve the process

Supp A-4 and Int A-4 confirmed that property division and supplier representatives had a weekend seminar at organisation A’s training centre within the first three weeks of the new contract to discuss the way forward. Int C-4 mentioned that the supplier was given higher discretions and authorities plus all property and lease transactions for organisation C regardless of size were now given to the supplier for action. Cases B, D and E had as mentioned previously a “business as usual” approach to the arrangement (Int B-4, Int D-4, Int E-4).

Consider changing environment

Supp A-4 and Supp C-4 were consistent in describing that their respective clients had changed attitudes to outsourcing by changing their environment. Supp C-4 and Int C-4 confirmed that the creation of a shared services division assisted in creating a more outsourcing conducive culture within organisation C. Similarly, Supp A-4 and Int E-5 confirmed that the new divisional director was “keen to implement organisational change within organisation A that met the inherent management problems of the past”. Cases B, D and E did not have reason to change the environment given their arrangements were working well (Int B-4, Int C-4, Int D-4, Int E-4).

Reassess staff and management personnel

Int A-4 confirmed that for organisation A the state property managers in New South Wales and Queensland were retrenched and the management of the outsourcing relationship was centralised in Melbourne. Supplier A replaced its senior contract representative with a person who had a background in banking as well as property. Int C-4 mentioned that having one divisional director in charge of all outsourcing for organisation C assisted in creating a more conducive outsourcing culture. There were also changes to staffing for business unit sections where the new personnel did not have according to Int C-4, “anti outsourcing views and sentiments”. Case B replaced its contract manager due to retirement (Int B-4). Cases D and E had no changes in staff or management (Int D-4, Int E-4).

Refocus partnership principles

Cases B, D and E had established partnership principles confirmed in the new contract documents entered into with the incumbent supplier (Doc B-14, Doc D-13, Doc E-13). Cases A and C provided a new working arrangement favouring partnership principles embodied in its contract variation documents with their respective incumbent suppliers (Doc A-13, Doc C-14).

Review performance and service standards in the light of past history and what is achievable

Case A revised its contract to focus on easier to understand performance bonus terms and conditions and also focus on the base contract value and automatic increases to the base contract value for satisfactory performance. Performance standards were outlined by category and in clear and plain English in the new arrangement according to Int A-5. He mentioned that the initial arrangement was based on “flawed and unreasonable set performance rewards that was unfair to the supplier”. Case C revised its performance formula to take into account only third party direct property costs and not internal charge backs when assessing supplier cost reduction performance (Int C-4). Cases B, D and E saw no need to change their performance and service standards nor the manner to address performance rewards and penalties (Int B-4, Int D-4, Int E-4).

Inhibitors

For poor performing contracts, continuation of the outsourcing contract with an incumbent supplier provides an opportunity for reassessment and improvement. Cases A and C took steps to address the problems with their respective contract. Cases B, D and E focused on maintaining their good working relationship with their respective supplier.

Deliverables

Cases A, B, C, D and E contracted with the incumbent supplier for a new contract term.

6.4.14 Milestones – Phase 5

Phase 5 is the final phase of the outsourcing framework and has defined milestones. The framework outlines these milestones as:

- Review contract expiry process well ahead of expiry (achieved for case D, satisfactory for cases A, B and E, less satisfactory for case C)
- Evaluation of options upon expiry using suitable techniques (achieved for cases A, B, C, D and E considering circumstances for each case)
- Research market for new best practices or new suppliers which have entered the market (Limited for all cases given the relatively small number of suppliers offering real estate outsourcing services)
- Base line cost revision (achieved for cases A,B,C,D and E)
- Senior management buy in to decision (achieved for cases A, B, C, D and E)
- Transition process considering business continuity as a priority (achieved for cases A, B, C, D and E as incumbent supplier selected in all cases)

- Communicate and implement transition strategy (achieved A, B, C, D and E)
- Reappraise arrangement with incumbent supplier if incumbent successful in renewing contract (achieved for cases A and C, 'business as usual' for cases B, D and E)

6.5 Focus Group Session Analysis and Findings

The focus group session was designed to ascertain whether industry practitioners in corporate real estate outsourcing considered the framework to have utility for assisting in corporate real estate outsourcing. Details of the sessions and findings are detailed below.

6.5.1 Focus Group Sessions

The six focus group participants were provided prior to the focus group session a copy of the framework and a letter instructing them of the time, date and venue for the focus group session and the purpose of the focus group session that was held. A copy of the focus group letter of introduction is attached as appendix 6. The letter detailed the purpose of the 2 hour focus group session held on October 12, 2010 to be:

- Determine whether the corporate real estate outsourcing framework provided contributes to the knowledge of corporate real estate outsourcing
- Determine whether the corporate real estate outsourcing framework is useful to industry practitioners involved in the outsourcing of corporate real estate
- Provide any other comments on the corporate real estate outsourcing framework that you consider important

Conduct of Focus Group Session

The focus group session was held on October 12th, 2010 at the RACV Club business centre, level 1, 501 Bourke Street, Melbourne Victoria 3000. The focus group session commenced at 11am and was completed at 1pm. The focus group session was conducted with a strict time agenda where approximately 40 minutes was devoted to each of the three items as outlined in the letter to participants and to be discussed by the focus group. Each of the six focus group participants was invited to give a maximum 5 minute address followed by the remaining time for that agenda item being devoted to group discussion. The researcher acted as the facilitator and did not participate in the focus group discussion other than ensure the allocated time was met and each agenda item addressed. All the six invited participants were present and participated for the entire focus group session.

Data Collection and Analysis

None of the focus group session was taped. All comments were transcribed by the researcher and written notes made of the meeting immediately after the end of the focus group session were transcribed onto a spreadsheet set up to record the focus group session. The spreadsheet was constructed to provide for a separate worksheet for each agenda item. All responses and comments were tracked by the focus group participant who made the comment including any other comments made by other focus group participants who responded to or otherwise participated in the discussion. This is in line with the approach suggested by Barbour (2007) who recommended that focus group interaction and interjections be recorded and reported. In reporting the focus group findings, direct quotes would be provided to ensure that the focus group session was reported as objectively as possible.

6.5.2 Findings of the Focus Group

The focus group session concentrated on three agenda items and the findings from the session on each agenda item is outlined as follows:

Determine whether the corporate real estate outsourcing framework provided contributes to the knowledge of corporate real estate outsourcing

Focus P-1 mentioned that “the framework is a necessary tool to corporate real estate outsourcing as there is little in the public domain to assist management involved in corporate real estate outsourcing”. He went on to say that “many organisations are not conversant with outsourcing and the framework can assist in filling this knowledge gap”.

Focus P-2 commented that “the framework adds a different dimension to the available literature on corporate real estate outsourcing which is often trade journal related and covers real estate outsourcing in a superficial manner”.

Focus P-3 saw the “framework as a piece of work that can be built on and varied as the market for corporate real estate outsourcing services change”.

Focus P-4 believed that the “literature on corporate real estate was of poor quality and that any meaningful work on the subject would add to the quality of the literature”.

Focus P-5 thought that “the North American literature on corporate real estate was more advanced than in Australia but even in North America there was little quality literature on outsourcing and therefore any literature that focuses on outsourcing will add to the understanding of corporate real estate outsourcing”.

Focus P-6 viewed the framework as “an interesting piece of work that would stimulate discussion and debate in the field of corporate real estate outsourcing”. She added that

“real estate outsourcing is relatively new in Australia and a corporate real estate outsourcing culture is still in its early stages and the framework assists management especially senior management developing the right outsourcing culture”.

The focus group then discussed the issues with the paucity of information on Australian corporate real estate. The consensus from Focus P-3, Focus P-5 and Focus P-6 was that Australian corporations were sensitive to sharing data and information on outsourcing in general and this study and resulting framework assisted in expanding the knowledge of Australian corporate real estate outsourcing.

Determine whether the corporate real estate outsourcing framework is useful to industry practitioners involved in the outsourcing of corporate real estate

Focus P-1 mentioned that “the framework is a valuable learning tool for many middle managers who are asked to initiate corporate real estate outsourcing solutions but have not been exposed to outsourcing as a concept”. He thought that “the framework would also assist senior management understanding of the complexities of Australian corporate real estate outsourcing”.

Focus P-2 commented that “the framework highlights the key points and issues in a structured manner.” He added that “presenting corporate real estate outsourcing in a structured manner such as the five phase approach ensures that the outsourcing process is not conducted in an adhoc manner”.

Focus P-3 believed the “framework had utility in emphasising key principles of outsourcing such as risk management and developing a strong alliance relationship with the supplier”. She thought that the “framework was comprehensive and detailed for use in an actual real estate outsourcing scenario”.

Focus P-4 thought that the “framework could have been structured in a table format and used for checklist purposes”. However, he said “that the framework presents a useful way of following an outsourcing process”.

Focus P-5 stated that “framework is an able training tool first and foremost and can be used as a control tool by senior managers and project managers”.

Focus P-6 considered that the “framework had utility for corporate real estate outsourcing as it clearly had a structure and direction that first time managers involved in corporate real estate outsourcing”.

The focus group discussed the need for such frameworks in corporate real estate outsourcing. The consensus from Focus P-2, Focus P-4 and Focus P-5 was that many outsourcing contracts are managed in an “ad hoc and unstructured manner”. Focus P-3 was adamant that “successful outsourcing arrangements require a disciplined and

structured approach". Focus P-6 considered the framework while lengthy was "a valuable tool in implementing corporate real estate outsourcing arrangements".

Provide any other comments on the corporate real estate outsourcing framework that you consider important

This part of the focus group was free format. Focus P-2 thought there was "little else he could add" and he thought that the framework may have assisted in his words "preventing some of the corporate real estate outsourcing disasters of recent years". Focus P-1 believed that the framework was "lengthy and at times repetitious". Focus P-6 differed from Focus P-1 in stressing in her mind "the importance of key outsourcing principles that are ongoing and relevant for different parts of the outsourcing process". She was concerned that "outsourcing decisions are made on often political principles and the framework provides objectivity to the outsourcing process". Focus P-3 thought that the "real value of the framework was as a training tool". This theme was also expressed by Focus P-1, Focus P-4 and Focus P-5.

There was some discussion on whether the five phases can be further broken down into more sub phases. Focus P-3, Focus P-4 and Focus P-5 were adamant that a "five phase outsourcing framework was much simpler than creating a "monster framework of phases and sub phases" according to Focus P-4. In addition, Focus P-3 stated that "there was no reason why the framework cannot be used and tailored for the specific requirements of the manager involved in the outsourcing project".

The consensus from the focus group was that the framework was a useful tool that can be used for a variety of purposes and overall helpful in implementing corporate real estate outsourcing contracts.

6.6 Chapter review and conclusion

This chapter completes the review of data collected, analysis and results from the five intensive case studies. Phases 3 to 5 of the outsourcing framework was analysed in this chapter against the experience of the five outsourcing case studies. Consistent with the prior chapter the findings of the study indicate that the outsourcing framework success factors were present in those cases that experienced a successful corporate real estate outcome. The study had an additional research objective. This was to ascertain if industry practitioners in the field of corporate real estate outsourcing found the outsourcing framework derived in this study had utility for industry practitioners and added to the knowledge base of corporate real estate outsourcing. The research used a focus group approach to meet these research objectives. The findings from the focus group session were that the outsourcing framework was of use to industry practitioners in the field of

corporate real estate outsourcing. In addition, the focus group participants believed that the outsourcing framework contributed to the knowledge base of corporate real estate outsourcing. Chapter 7 concludes the thesis and provides details of further areas of recommended research.

Chapter 7: Conclusions and Suggested Areas of Further Research

7.1 Introduction

Chapter 7 concludes the thesis. A summary of the study is presented in this chapter. Research findings are considered in the light of the research aims and objectives. Conclusions about the study incorporate discussion on the contribution to the theory of corporate real estate and whether the outsourcing success factors framework has utility for practitioners of corporate real estate outsourcing and outsourcing in general. Research limitations are discussed in terms of research design limitations and the generalizability of research findings. The chapter concludes with a discussion on areas recommended for future research.

7.2 Summary of the research

This study was concerned with the outsourcing of corporate real estate in Australia. In particular, the study was concerned with ascertaining what factors assist in ensuring the success of corporate real estate outsourcing. As an industry practitioner in the field of corporate real estate over the last 15 years the researcher was concerned about the lack of study in Australian corporate real estate outsourcing. Despite the fact that Australian corporate real estate outsourcing contracts typically range in value from \$2million to \$12million, there is a paucity of literature available in the field of Australian corporate real estate outsourcing. Moreover, the experience of Australian corporate real estate outsourcing in the last 10 years has been as reported in the media and public domain at times acrimonious between supplier and organization. This research was driven by the need to add to the literature devoted to corporate real estate outsourcing especially in developing a framework to assist industry practitioners to derive more optimal corporate real estate outsourcing solutions. The study aimed to create an original and useful corporate real estate success factors framework for use by industry practitioners. Despite the significant growth in corporate real estate outsourcing since the late 1990s, there has been little change in the level of Australian corporate real estate outsourcing literature. As at December 2010, the situation with the lack of suitable Australian corporate real estate literature or academic research in the field of Australian corporate real estate outsourcing has not altered. This study will therefore add to the literature in Australian corporate real estate outsourcing and in particular the requirements for success in Australian corporate real estate outsourcing.

Outsourcing for Australian corporate real estate arrangements typically are of a significant amount. The study defines contracts of \$2million plus as being significant outsourcing arrangements. As detailed in chapters 1 and 4, the study limited the research scope to major corporate real estate outsourcing contracts and those outsourcing arrangements that fully outsourced facility management and corporate real estate services. This eliminated partial outsourcing, joint venture arrangements or out tasking arrangements. Outsourcing and outsourcing success was defined in the study. Further, major real estate outsourcing requirements and the services in such contracts were similarly articulated in chapters 1 and 4. The study also limited the examination of those corporate real estate arrangements that in addition to any other requirements set out in chapters 1 and 4, any arrangement to be examined was to have completed one full contract cycle from contract commencement to expiry.

Developing a success factors framework required consulting the literature to determine what was considered to assist in outsourcing success. The lack of corporate real estate outsourcing literature was a challenge to the study in obtaining success factors that could assist in the delivery of optimal corporate real estate outsourcing. This impediment was handled in the study by consulting a variety of academic and refereed literature in other areas of outsourcing. While the information systems outsourcing literature was consulted, other academic and refereed outsourcing literature pertaining to logistics, librarianship, transport and human resources was also consulted. The relevant literature from various fields was reviewed to determine those factors, processes and approaches described in the literature that contributed to outsourcing success. The literature on outsourcing especially in respect to information systems outsourcing is extensive and the focus in the study was to ascertain from the relevant literature those themes, guidelines, processes, practices and approaches that contribute to successful outsourcing processes.

A detailed and extensive review of the outsourcing literature was presented in chapter 2. The conclusions from the literature review indicated that successful outsourcing involved a structured and phased approach. Five phases in the outsourcing process was identified from the literature. Each phase was sequential and each phase had its own inhibitors, deliverables and milestones. Within each phase were specific tasks, processes and actions that were particular to and required to be performed for that phase. Some of these tasks, processes and actions were often repeated in more than one phase. For example setting a suitable communication strategy was deemed important in all five phases. Successful completion of the prior phase was important for the subsequent phase to commence in this five phase approach to outsourcing.

Based on the literature review in chapter 2, an original success factors framework was created to assist in the successful outsourcing of corporate real estate outsourcing. This success factors framework was presented in chapter 3. The framework was structured adopting the five phase approach derived from the literature. Within each phase, the outsourcing framework prescribed based on the literature defined actions, processes and tasks that were deemed to assist in achieving outsourcing success. The framework also outlined inhibitors, deliverables and milestones as relevant in each phase. This framework would be assessed against the experience of actual major outsourcing arrangements. If the framework's phased approach and requirements set out were consistent with the experience of major corporate real estate outsourcing arrangements that were successful then the framework would have demonstrated its validity as a tool for practitioners to use to implement successful major corporate real estate outsourcing arrangements. The study examined the outsourcing success factors framework against five major corporate real estate outsourcing contracts.

Chapter 4 outlined the research design and methodology for the study. The key research issue was whether the framework had relevance, utility and consistent with actual experience of corporate real estate outsourcing. Case study methodology and in particular 'pattern matching' was deemed the most appropriate research strategy to meet this broad research aim and objective. The study involved detailed exploratory research and five intensive case studies were deemed to be the most suitable manner to achieve the research aims and objectives. Some 1200 pages of documentation were reviewed as part of examination of case study. Chapter 4 detailed the basis of data recording, coding and analysis.

The detailed data collection, analysis and findings were presented in chapters 5 and 6. An additional research objective was whether firstly industry practitioners considered the framework as adding to the knowledge base of corporate real estate outsourcing and secondly whether industry practitioners considered the framework as assisting in the success of corporate real estate outsourcing. To achieve this research objective, a focus group session was held. The results of this focus group session were presented in chapter 6.

7.3 Consideration of the research findings

The findings of the study are presented in chapter 5 (covered phases 1 to 2 of the framework) and chapter 6 (covered phases 3 to 5 of the framework). The five case study participants did not all have successful outsourcing experiences. Three of the five case study participants (Cases B, D and E) had a successful corporate real estate outsourcing outcome while two case study participants (Cases A and C) had unsuccessful corporate real estate outsourcing experiences. Successful outsourcing was defined in the framework as those arrangements that meet the objectives, aims and drivers set out for the outsourcing arrangement at the outset. Those case studies that had successful outsourcing had either all or otherwise the majority of their objectives and aims for outsourcing met. The case studies that had unsuccessful outsourcing experiences had little or none of the objectives or aims of outsourcing met in the arrangement they entered into.

Overall conclusions – success factors framework and the five case studies

Subject to the inherent limitations of the study identified in section 7.5, the evidence indicates that the framework's five phase approach and its underlying processes, tasks and actions was consistent for those successful case studies that had positive outsourcing experiences, but not consistent for those cases where the outcome was not positive and outsourcing aims and objectives not met. In other words there is evidence that the framework inclusive of its phases and sub phases applied more so for the successful outsourcing cases and less so for the unsuccessful outsourcing cases. Table 7.1 identifies in summary format the number of framework sub phase tasks that were deemed to have been completed within each case study.

Case study performance for each sub phase and tasks required in the Framework	Cases				
	Successful			Unsuccessful	
	B	D	E	A	C
Phase 1 – 76 sub phase tasks	70 met	71 met	73 met	18 met	20 met
Phase 2 – 129 sub phase tasks	124 met	129 met	124 met	29 met	49 met
Phase 3 – 54 sub phase tasks	50 met	52 met	50 met	12 met	17 met
Phase 4 – 49 sub phase tasks	49 met	49 met	49 met	1 met	5 met
Phase 5 – 39 sub phase tasks	29 met	31 met	27 met	22 met	16 met
TOTAL – 342 sub phase tasks	322 met	332 met	323 met	82 met	107 met

Table 7.1 : Framework sub phase tasks and case study performance

The framework provided for a structured five phase approach to outsourcing. For the three successful cases, a five phase approach to outsourcing appeared to be consistent with the framework. The unsuccessful cases appeared not to have five distinct phases in their outsourcing approach. For these cases, phases 1 and 2 were merged together. Contrast this with the successful cases that the study identified the existence of five distinct phases consistent with the framework. The evidence for each particular phase for the successful cases appeared to support the framework. For the three successful cases, the framework phase actions appeared to apply for those cases. In contrast for the unsuccessful cases, there was little evidence that specific actions, tasks and processes identified in the framework were evident for the unsuccessful cases. For each phase, the consistency between the framework and the actual experience for each case study appeared to be more applicable for the successful outsourcing case studies. The evidence indicated that the more successful was the outsourcing experience the more likely that the framework's requirements for each phase were consistent with the actual experience of the successful cases. Table 7.1 highlights the degree of consistency between the framework and the actual outsourcing experience of each successful case and conversely the degree of consistency between the framework and the unsuccessful outsourcing experience.

In addition to creation of a validated corporate real estate outsourcing success factors framework, the research had an additional objective to ascertain the utility of the framework for practitioners involved in the outsourcing of corporate real estate and therefore gaining acceptance from industry practitioners to the framework adding to the knowledge base of corporate real estate outsourcing. The findings from the focus group were that the framework has usefulness as a guide for successful corporate real estate outsourcing, use as a training tool for those involved in outsourcing and as a defined process for practitioners to follow to implement successful outsourcing outcomes. Some suggested improvements to the framework were to present each phase in a table format so that practitioners could tick off each task completed on a phase by phase basis. Otherwise, the consensus from the focus group was that the framework was relatively straight forward to follow.

7.4 Research validity and contribution to knowledge

Allowing for the limitations of the study's research design and methodology outlined in section 7.5 in respect to validity and generalisability, the study indicates that the original framework created as part of the research was independently validated and the framework has utility for those involved in corporate real estate outsourcing. Following the framework is more likely to promote positive corporate real estate outsourcing

outcomes than if it is not followed. Given the findings of the study, it would appear that the framework be followed strictly as presented in form and substance to achieve optimal benefits. The framework focuses on risk assessment, communication strategies and partnering principles through out the five phases. Therefore, as shown for the unsuccessful cases where partnering principles for example were missing throughout the outsourcing process, this compromised the relationship between supplier and organization. The framework provides guidelines and sign posts as to the principles required in a successful outsourcing relationship. Therefore, the findings from the study would support that practitioners wishing to use the model effectively need to respect the principles embodied and relevant to each phase. The framework's key principles of risk management, partnering and communication were consistent in the experience of the successful outsourcing cases.

Critical to ultimate outsourcing success appears to be a good start to the outsourcing process. Phases 1 to 3 are the building blocks for successful outsourcing when the contract goes 'live'. For the successful case studies, their initial three phases were consistent with the expectations of the framework. The unsuccessful cases had a poor beginning to the outsourcing process. There was no evidence of the framework's requirements in the early stages of outsourcing being evident for the unsuccessful cases. Given that the framework is set sequentially it is no surprise that completion of an initial phase is required before a subsequent phase can commence. Therefore if one phase is badly completed then the subsequent phase and ultimate outsourcing success will be compromised. Certainly this was the case for the unsuccessful cases A and C.

All case participants had learned from their outsourcing experience by the time of expiry (phase 5). Case A that had a particularly poor outsourcing record made improvements during the expiry phase to their operations consistent with the requirements of the framework. Similarly case C also with a bad outsourcing performance record realized during the expiry phase that many of its former practices were inconsistent with achieving optimal outsourcing and instituted a number of practices evident in the framework.

At expiry, the first phase of the outsourcing framework also has importance. Many of the activities of the first phase such as revisiting objectives, aims and drivers for outsourcing are carried out. The framework has a dynamic element that while the five phases are conducted sequentially from the first phase to the fifth phase, the cycle commences again at expiry of contract assuming the decision is made to continue

outsourcing corporate real estate. For the successful cases, this was evident in their addressing during phase 5 (expiry phase) outsourcing objectives, base line costs and other business case parameters found in phase 1 of the outsourcing success framework.

7.4.1 Contributions to theory of corporate real estate outsourcing

The study addresses the gap in the Australian corporate real estate literature particularly in respect to successful outsourcing of corporate real estate. This study was conducted and the framework validated using five intensive case studies as the principle research methodology. The framework created as a result of the research adds to the theory of outsourcing in general and specifically corporate real estate outsourcing.

The success factors framework created as part of this study is based on the broader outsourcing literature. Ideas and themes on outsourcing success were taken from the literature and synthesized to form the success factors framework presented in chapter 3. A broad range of outsourcing literature was consulted and reviewed to assist in the development of the framework. The framework was then evaluated against five intensive case studies involving major corporate real estate outsourcing contracts. The framework represents a theoretical approach to successful corporate real estate outsourcing. The study compared the theoretical framework created to the empirical evidence from the five case studies as a means to validate the theoretical framework. Lee and Baskerville (2003) consider this process as enhancing validity by generalizing from the empirical to the theoretical. The framework's desired actions were consistent with the empirical evidence derived for the successful outsourcing cases.

The empirical evidence was provided in the study via the collection and analysis of extensive interviews, perusal of archival documentation and documented references and quotes in the study. This provides rigor to the development of the framework as validated theory in the field of Australian corporate real estate outsourcing.

7.4.2 Utility for practitioners of corporate real estate outsourcing

Corporate real estate outsourcing contracts are typically large value contracts of \$2million plus. Accordingly any framework devoted to the successful outsourcing of corporate real estate will be considered useful to practitioners to enhance the chance of a successful outsourcing arrangement. The framework is organized in a sequential manner with each of the five phases clearly identified. Within each phase, the particular tasks and processes required to be performed are clearly identified.

The framework provides insight into what provides for outsourcing success. Practitioners can use the framework as a training tool for staff and senior management involved in the outsourcing of corporate real estate. This is important where the organization does not have an outsourcing culture and the framework provides a basis of understanding for staff and senior management as to what may enhance outsourcing success.

The framework lends itself to be used as a checklist for practitioners involved in managing corporate real estate outsourcing. It assists practitioners in scheduling resources as the framework details for each phase in general terms the human resources and other resources required to complete the outsourcing process.

Practitioners can use the framework to identify areas of concern in poor performing outsourcing contracts by checking off for say phase 4 (the management of contract phase) which part of the framework is not being followed and accordingly take corrective action.

7.5 Limitations of the research

The study has its limitations. These limitations are concerned with research design and limitations that impact on the ability to make generalizations about the findings of the study.

7.5.1 Research design limitations

Yin (2003) provides that case study research has limitations like any research methodology. The research design limitations for this study that need to be considered are:

- As with all qualitative research methodologies such as case study research, there are likely to be limitations in respect to the interview and data collection process. While every effort was made to address these limitations it is not possible to totally eliminate these limitations.
- Given the constraints of time and resources, the interviewees selected for each case study had major roles in the outsourcing process and other potential interviewees who had a role were not considered. Therefore it is likely that not all possible interviewees relevant to each case study were available or otherwise given the time constraints able to be interviewed.
- Supplier interviewee access was for most of the cases restricted to the respective supplier senior and middle management staff. Some of the original

supplier staff involved in the implementation of the outsourcing arrangement for cases B and E had left their respective supplier organization by the time the interview process had commenced.

- There is no guarantee that all archival and other documents relevant to any particular case was identified or otherwise provided by the case organization.

7.5.2 Limitations in generalizing research findings

The study involved corporate real estate outsourcing. However, the study concentrated on major corporate real estate outsourcing. Accordingly, the findings of the research cannot be generalized to be inclusive of smaller scale real estate outsourcing contractual arrangements.

Although the five case study organizations are representative of a different industries and sectors, there are other industries such as mining and hospital/medical sectors where large scale corporate real estate outsourcing contracts are in existence. It was not possible to include a corporate outsourcing case study from either of these industries. Accordingly, the findings of the study may not be relevant to these industries or otherwise to industries outside of the industries pertaining to the five case study organisations.

All case study participants have their property assets and holdings largely located within Australia. The study findings may not therefore be applicable to those organizations that have extensive property holdings overseas as part of their total property portfolio. This would apply to the Department of Foreign Affairs that has a large proportion of its property holdings as consulates in many overseas locations. Similarly, the research findings may not be relevant to large scale property trusts with significant overseas holdings.

7.6 Suggested areas for future research

The following areas of further research are suggested to expand upon the study or otherwise add to the knowledge base of corporate real estate outsourcing. These are:

- The study has not attempted to assess the relative importance of each phase or the various tasks and processes relevant within each phase. Accordingly, future research could look at the relative importance of each phase within the framework and various processes within each phase. This may highlight other areas of concern and interest in promoting corporate real estate outsourcing success. For example, is there some reason or basis to argue that some

organisations 'naturally' comply with a structured framework and others 'depart' from a structured framework such as the one developed in the research?

- The framework could be tested and validated using non real estate outsourcing contract case studies to ascertain whether the framework is relevant for other outsourcing contract types. The framework is derived from the general outsourcing literature and therefore could be evaluated in the light of other outsourcing arrangements apart from corporate real estate outsourcing transactions.
- Supplier selection strategies are incorporated into the framework in general terms. A future study could provide a predictive model on likely supplier performance based on past performance and other variables. This could be useful to predict situations where the supplier may not be suitable.
- The framework could be tested in 'real time' for new outsourcing contracts. The performance of the framework could then be assessed as to how the success factors outsourcing framework performed at each phase of the outsourcing cycle.

7.7 Chapter review and conclusion

Chapter 7 concludes the thesis. Presented in this chapter was the summary of the research project. The findings of the research were presented. The contribution of the study being the outsourcing success factors framework as detailed in terms of its basis and validity. Of particular importance was the contribution of the study to the theory of corporate real estate outsourcing and body of knowledge of real estate outsourcing. For practitioners the framework was deemed to be useful from a practical viewpoint in enhancing the quality of corporate real estate outsourcing outcomes. The limitations of the research design and generalisability of the research findings were acknowledged. Lastly, some suggested future research areas were articulated flowing from the study and findings.

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Appendices

Appendix 1: Interview Guide

INTERVIEW GUIDE - DOCTOR OF PHILOSOPHY THESIS

DATE OF INTERVIEW :

PLACE OF INTERVIEW :

INTERVIEW START TIME :

INTERVIEW END TIME:

INTERVIEWEE DETAILS

Name :

Position Title :

Role Description :

Role in Outsourcing- Supplier Management :

Reports To :

Relationship with other Business Units :

COMPANY DETAILS

Industry Type :

No. of Employees – Total :

No of Employees - Corporate Real Estate :

Total CRE Assets Value :

Real Estate Information System:

Associated Business Units:

OUTSOURCING AND CORPORATE REAL ESTATE SUPPLIER DETAILS

Real Estate Services Outsourced :

Supplier(s) :

Years in Business :

Commencement Date :

Annual Value of Contract(s):

Specialist Outsourcing Contractor :

Services Outsourced:

Location of Staff/Operations :

Discretionary Budget – Expenditure :

Organisational and Management Structure :

Contractual End Date:

THE OUTSOURCING PROCESS - GENERAL DISCUSSION – OUTSOURCING ARRANGEMENT

What were the objectives and drivers in outsourcing corporate real estate functions?

Describe process, timing and resources utilised?

Describe the process to outsource corporate real estate functions? (nclude documentation entered into)

Who drove the outsourcing process? Did you have a project team? Outline make up of team?

Have these objectives been met?

What key lessons did you learn about the outsourcing process?

What have been the successes and failures of the outsourcing process?

Did you have a structured approach to dealing with outsourcing?

What have you learnt from the process, how can it be improved?

Do you have an alliance or partnering culture in dealing with suppliers?

Where do you see the current outsourcing progressing in terms of outsourcing corporate real estate functions?

What alternatives did you consider?

What do your business units say about the success or otherwise of the outsourcing of corporate real estate functions?

How do you define outsourcing success?

Overall, how would you summarise the outsourcing experience?

Would you have outsourced knowing what you know now?

CONSIDERATION OF THE FIVE PHASE OUTSOURCING FRAMEWORK

Project team members, senior management, key staff – please outline make up and experience?

Could you please state to what extent these persons formed a part of the outsourcing process for your company?

Provide source and evidence for each assertion made on each success factors?

ANALYSIS OF EACH PHASE – SUCCESS FACTORS

For each phase follow and discuss the outline of the framework ensuring each phase and subphase task is discussed in detail responses documented and source documentation recorded. General open ended questions outlined below. These questions are framed to encourage discussion and further elaboration for each phase. As open ended questions they are designed to obtain further insight into the outsourcing process for the case study in question.

Phase 1 : Preliminary analysis, feasibility study and evaluation of the outsourcing concept

Success Factors – Phase 1

Was there an understanding and acceptance that outsourcing is an orderly phase by phase process with its own inherent risks?

Were there clear business objectives and drivers established for outsourcing? Discuss and define them.

Did you have senior Management buyin from the outset and support for the key outsourcing personnel?

Did you establish a dedicated outsourcing team responsibility and accountability?

Was a base line cost template established and business case that has been subjected to independent scrutiny?

Did you firm retain control over strategic functions not operational functions? Can you define operational and strategic functions?

Did you prefer prime contractor to multi contractor arrangements?

Define the service standards in advance that supplier is to achieve and where documented and supported?

Define and assess legal information gaps, statutory and business unit problems and issues to be addressed?

What was the communication strategy for senior management and the broader team?

Did you research supplier market and availability of suppliers to perform roles expected?

Phase 2: Request for proposal ,tender process, selection of supplier and contract negotiation

Success Factors – Phase 2

Did the request for tender document defines clearly the objectives scope, interfaces and service delivery requirements of outsourcing?

Was there a 'partnering approach' as evidenced by tender documentation, conduct and approach in day to day dealings with suppliers?

Did senior management and audit signoff to tender process, timetable, potential suppliers?

How did you develop the tender evaluation guidelines, including weightings and scoring system to be consistent to business objectives?

Did you limit the number of suppliers by conducting a pre tender evaluation of supplier capabilities, track record?

Was there a clearly defined communication strategy to senior management , staff and business units?

How was the tender process conducted in an open, transparent and open book process?

Encourage supplier innovation in the tender process whilst maintaining an open and fair tender process and not straying from objectives?

Was there a verification process of supplier assertions/response to be multifaceted including reference checking, site visits and trial runs?

How did you manage the expectation and communication process to deal with staff , business units and customer concerns?

Was there a sample provided to supplier of expected contract, service delivery and performance standard documentation ?

What was the basis of you assessing risks ascertained during this phase ensuring senior manager and audit sign off is obtained?

Make a final decision in as timely manner as possible (is outsourcing feasible and if so what supplier)

Senior manager signoff to final decision, when obtained?

Were you flexible in contract negotiations seeking a 'win win' non adversarial relationship?

Do you consider the contract to have simple procedures, plain english, clearly defined scope, objectives, service standards?

What were the importance of penalties, performance criteria, termination provisions set in contract?

Why did you consider a workable transition team comprising key supplier and client personnel?

How did you announce transition program to affected staff, customers and business units (detail time and approach)?

What communication strategy did you employ for this phase?

Phase 3 : Transition to outsourcing

Success Factors – Phase 3

How did you build trust during transition process by keeping program schedule, work flow and dealing with problems?

Did you limit the transition process to the transition team?

Did you address quickly , openly and fairly any risk areas or previously hidden problems discovered during transition?

How did you address base line costs, information provided quality of data and systems both client and supplier?

Did you or why not obtain audit signoff to suppliers systems, processes and management?

How did you develop the organisational , management and reporting framework - day to day dealings?

Was documentation provided inhouse as to how you dealt with supplier on day to day basis?

How and why did you communicate transition progress continually to staff, business units and suppliers , dealing with any concerns?

Did you develop an orderly process to transfer staff, data, information and files to the supplier?

Who, when and how did you revert to senior management for countering any blockages to the transition process?

Did you revise the contract including performance criteria, penalties as relevant for matters discovered during the transition process?

Has the contract sufficient termination provisions?

Termination process to ensure an orderly transfer of files, data, third party contracts?

Did you ensure contract has defined provisions outlining ownership of data, files, equipment ?

Decide on supplier contract representatives ,supplier contact points for management of the contract- process?

Key criteria employed to select supplier? Template, matrix?

Was there an agreed contract performance measuring criteria?

Did you consider training and upskilling of key staff in workings of systems and processes?

Describe transition process? What worked? What did not work?

What final contract was agreed to? Provide copies?

Phase 4: Managing the outsourcing arrangement

Success Factors – Phase 4

How did you address personnel problems, conflicts and disagreements between supplier and client quickly and fairly?

Did you maintain a supplier monitoring regime and performance regime adopting agreed performance criteria in contract?

How did you involve business units, clients and third parties in measuring and commenting on supplier performance

Develop a partnering relationship by continuous learning, joint training, risk sharing, innovation, rewards, value creation strategies?

How did you develop trust, flexibility , scale, cultural fit and understanding?

Performance measures? Bonus or penalties enforced?

Did you keep operating procedures as simple as possible with as few communication or approval channels as possible?

What operating manuals were in place? Please provide a copy.

Keep dispute resolution at lower levels, escalate major issues to senior management committee of client and and supplier reps?

Continually negotiate with supplier in the light of new information, industry benchmarks or revised best practice standards?

Did you revert to senior management to deal with uncooperative employees or business units dealing with the supplier?

Did you conduct a review of alternatives, objectives and performance of existing contract some 12 months from contract expiry?

Phase 5: Contract Expiry (renewal, revision or termination of outsourcing arrangement)

Success Factors – Phase 5

At expiry did you review objectives of outsourcing, base line costs, risks and outcomes of contract including any alternatives?

Did you develop contingency, disaster recovery or backup plans if contract is to be terminated quickly?

Was there a detailed study of available alternatives, best practice, performance standards, suppliers now available?

Did you assess risks of termination, change of suppliers or variation versus bringing back inhouse?

Did you assess the quality of the data, information and any information gaps for any new supplier?

Did you obtain senior management buyin to decision made whether to renew, revise or terminate?

How did you ensure continuity of business during re tender process if decision made to not proceed with incumbent supplier?

Was there a clearly defined program well ahead of expiry date and allowing for a suitable transition period to a new supplier?

Did you address if applicable transfer of files, data, staff and systems with supplier at least 6 months before expiry?

Revise contract in terms of changing objectives, scope, performance standards and key performance criteria

How did you communicate to third parties, staff, business units and clients on status of contract and proposed action on expiry?

Was there a transition team to manage the termination process or revision to existing contract as appropriate?

Did you maintain a partnering relationship throughout by open , transparent and clear communication with supplier

How didyou work towards a smooth transition from one supplier to another, budget for additional costs in completing additional work?

CONCLUSION AND WRAP UP

Thank the interviewee, record time and date of follow up meetings or actions.

Appendix 2 : Letter of Introduction

Date

Addressee

Dear Sir/Madam,

Re: Research into the successful outsourcing of corporate real estate : Doctor of Philosophy thesis for Pasquale Franzese

I refer to our discussions and thank you for accepting to participate in the research proposed for purposes of fulfilment of the Doctor of Philosophy degree at Victoria University by thesis. The thesis is entitled 'A Framework for the Successful Outsourcing of Australian Corporate Real Estate'.

I will contact you shortly to make suitable arrangements to meet and commence the interview and data collection process. As discussed, the research has ethics clearance from Victoria University. The thesis will not identify you or your organisation in any manner that can identify you, your organisation or the incumbent supplier. Similarly, any documentation or confidential material perused or obtained as part of the research process will be kept confidential. No interview will be taped or recorded without your permission. The thesis requires analysis of data collected and presentation of findings. Any data or information collected will not be released to any other person except as necessary to be discussed with my supervisor. At all times, this documentation and information will be kept secure.

I look forward to working with you and your team and will call you shortly to arrange a suitable interview time. In the interim, please contact me on my mobile 0424 144 454 should you wish to discuss any matter in respect to this request.

Yours faithfully,

Pasquale Franzese

Appendix 3 : Case Study Interview Participants

Case	Identifier	Title and Role within Organisation
A	Int A-1	Head of Corporate Real Estate, responsible for real estate operations
	Int A-2	Manager – CRE , operational manager for shared services division incorporate all property operations
	Int A-3	Property Services Manager, acted as day to day manager of outsourcing contract
	Int A-4	Assistant Transaction Manager, assisted Int A-3 in day to day management of contract
	Int A-5	Contracts manager, involved in expiry negotiations with supplier
	Supp A-1	General Manager Australia, Australian head of supplier organisation
	Supp A-2	Contract Manager for organisation A outsourcing contract
	Supp A-3	Facility and Call Centre Manager, day to day facility management operations
	Supp A-4	Contract Executive, involved in negotiation of contracts and implementation strategies reporting to Contract Manager
B	Int B-1	General Manager, organisational head reporting to Board of Directors
	Int B-2	Manager – Operations and Administration, reporting to General Manager
	Int B-3	Property Manager, day to day dealings with supplier
	Int B-4	Project team leader, involved in all organisation B projects and outsourcing/contracting out
	Supp B-1	Director – CRE Outsourcing Services, Head of CRE accountable for outsourcing of CRE services
	Supp B-2	Senior Manager – Contracts, reporting to Director CRE and senior manager representing supplier in respect to contract
	Supp B-3	Relationship Manager, Day to day contract dealings with organisation B
	Supp B-4	Consultant, engaged by Supplier B on all transition, management and expiry matters relating to CRE outsourcing contract
C	Int C-1	Procurement and Purchasing Chief Manager, accountable for all outsourcing contracts including CRE
	Int C-2	Assistant Procurement Manager – Property Services and Senior CRE manager within organisation C
	Int C-3	Real Estate Executive, day to day dealings with supplier
	Int C-4	Manager Shared Services – engaged to centralise and take over all outsourcing services including CRE
	Supp C-1	Group Executive – Business Services, supplier's head of operations for Victoria, South Australia and Western Australia
	Supp C-2	Assistant to Group Executive and senior manager involved with Organisation C outsourcing contract
	Supp C-3	Facilities and Project Manager, day to day property transactions on Organisation C contract
	Supp C-4	Research and Projects Officer, responsible for monitoring performance of contract with organisation C
D	Int D-1	Managing Director, director of organisation D and driver for outsourcing of CRE functions
	Int D-2	General Manager – Finance, reporting to Managing Director of organisation D and coordinator of evaluation and transition to outsourcing
	Int D-3	Property Services Manager, day to day management of outsourcing contract

Case	Identifier	Title and Role within Organisation
	Int D-4	Project Officer – Contracts, involved with evaluation and review of outsourcing contract and renegotiation
	Int D-5	Procurement manager, responsible for all outsourcing contracts for organisation D
	Supp D-1	Senior Manager – Business Processing Services, senior manager responsible for Organisation D contract
	Supp D-2	Manager – Southern Region, head of outsourcing services within Victoria, South Australia, Tasmania and Western Australia
	Supp D-3	Operations manager responsible for day to day transaction and facilities management relating to contract
	Supp D-4	Call centre and facilities manager responsible for the call centre operations run by Supplier D
E	Int E-1	Chief Operating Officer - Organisation D, involved in outsourcing of corporate real estate functions for organisation C
	Int E-2	Manager – Administrative Services, day to day operational manager for the outsourcing contract for organisation E
	Int E-3	Assistant Manager – Administrative Services, day to day management and liaison with supplier representatives
	Int E-4	Accountant, monitored supplier performance reporting and system interfaces with supplier
	Supp E-1	Head of Australia, senior supplier representative in respect to organisation E outsourcing contract
	Supp E-2	Relationship Manager, in charge of day to day operational matters in respect to organisation E contract
	Supp E-3	Services Manager, in charge of call centre and facilities operations
	Supp E-4	Finance Officer, monitors and liaises with third party suppliers involved with outsourcing contract

Appendix 4 : Case Study Archival and Source Documents

Case	Doc	Description of Documents
A	A 1	Property Services Outsourcing Contract – May 2004 Ancillary Documents to Property Services Contract – May 2004 Correspondence various relating to CRE outsourcing (December 2003 – April 2004)
	A 2	Organisational Hierarchy Chart – March 2004 Property Services Costs Summary – December 2003 Correspondence various dictating outsourcing (June 2003 – September 2003) Executive Director signoff to outsourcing (November 2003) Access 2003 database reports on property operations– (May 2003 – February 2004)
	A 3	Supplier introduction letter and attachments – February 2004 Schedule of Property Services – February 2004 Analyst Cost Review – February 2004 Internal correspondence with various departments (January 2004 – February 2004) Draft legal contract – February 2004
	A 4	Circulars interdepartmental various to staff – (October 2003 – March 2004) Supplier correspondence – February 2004 - March 2004 Supplier tender documentation and ancillary – January 2004 Reviews of tenders memorandums (March 2004 – April 2004) Internal correspondence to organisational staff (March 2004 – June 2004) Supplier correspondence to organisation staff (May 2004 – June 2004) Human resource policy and enterprise bargaining agreement – April 2003 Agreed contract governing principles – March 2004
	A 5	Implementation timetable and program – June 2004 Correspondence between supplier and organisation (May 2004-June 2004) Circulars to staff and third party suppliers – May 2004 Internal various correspondence – (May 2004 – July 2004) Project team minutes (June 2004 – July 2004)
	A 6	Supplier operational policy manual – July 2004 Correspondence between supplier and organisation various (June 2004 – March 2005) Internal satisfaction review of contract performance – January 2005 Performance reports (July 2004 – March 2005)
	A 7	Supplier performance undertakings – May 2004 Asset register – December 2004 Call centre reports (July 2004 – June 2005) Relationship committee meeting minutes (July 2004 – October 2004) Supplier contact list – March 2005 Letters of complaint from stakeholders various (July 2004 – March 2005) Internal correspondence various – March 2004 and June 2004
	A 8	Correspondence between supplier and organisation various (December 2004 - March 2006) Performance reports (March 2006 – May 2007) Relationship committee meeting notes – November 2006 Supplier system manual – September 2007
	A 9	Performance reports (August 2007 – October 2008) Correspondence supplier and organisation (June 2006 – March 2007) Internal correspondence various (July 2006 – April 2007) Shared services division conference notes (January 2008)
	A 10	Call centre performance reports (January 2006 – December 2007) Various correspondence – supplier and organisation (March 2008- January 2009) Internal correspondence various (April 2008 – October 2008) Grievance formal letter to supplier – October 2008

Case	Doc	Description of Documents
		Stakeholder complaints memo to property department – September 2008 Supplier response letter – October 2008
	A 11	Correspondence between supplier and organisation various (February 2009) Cost review of property operations 2005 – 2008 (January 2009) Internal correspondence – various (November 2008 – March 2009)
	A 12	Senior management memorandums to property department – February 2009 Cost and performance review discussion paper – January 2009 Legal opinion letter – February 2009 Request for proposal documentation – various (February 2009 - April 2009) Various internal correspondence (March 2009 – July 2009)
	A 13	Senior manager sign off letter – June 2009 Various correspondence relating to supplier decision (June 2009 – July 2009) Engagement letter to supplier – August 2009
B	B 1	Contract for outsourcing of property services – January 2005 Various internal correspondence (July 2004 – January 2005) Business case for outsourcing – December 2004 Senior manager correspondence various (October 2004 – November 2004) Organisational chart and hierarchy – October 2004
	B 2	Base line costs analysis – November 2004 Risk analysis template – December 2004 Various internal correspondence (January 2005 - February 2005) Team steering committee minutes (October 2004 – December 2004)
	B 3	Analysis templates – (December 2004 – January 2005) Draft legal contract and ancillary documents – December 2004 Audit and legal correspondence – (October 2004 – January 2005) Proposal formation meeting notes – (October 2004 – November 2004) Stakeholder survey – November 2004 Various internal emails and memorandums – December 2004
	B 4	Capabilities Statement – December 2004 Request for proposal and ancillary documents (October 2004 – November 2004) Supplier review paper – December 2004 Various correspondence regarding supplier risk – January 2005 Supplier feedback to request for tender – January 2005 Analysis of tender results – January 2005 Ethics Officer report – February 2005 Service Level Agreement (SLA's) – November 2004 Proposed contract specifications – November 2004
	B 5	Staff meeting notes – January 2005 Senior management correspondence various - (December 2004 – January 2005) Circular to staff and stakeholders (December 2004 – January 2005) Project team transition notes – January 2005 Service Level Agreement – December 2004 Audit and legal review correspondence – February 2005
	B 6	Transition program and implementation review – January 2005 Supplier correspondence to staff – (January 2005 – March 2005) Various internal correspondence – (February 2005 – April 2005) Ethics officer final report – March 2005 Stakeholder comment on SLA's – February 2005 Circulars to staff and third party stakeholders – January 2005
	B 7	Outsourcing procedures manual – May 2005 Training schedule – (December 2004 – March 2005) Authorities register – June 2005 Supplier system manuals – March 2005 Various internal correspondence – (March 2005 – June 2005)

Case	Doc	Description of Documents
	B 8	Supplier and organisation meeting minutes – (March 2005 – June 2005) Various internal correspondence (May 2005 – July 2005) Register of assets and files – March 2005
	B 9	Facilities management reports – (April 2005 – October 2005) Senior management memorandum to Property Department – August 2005 Various internal correspondence – (August 2005 – March 2006) Quarterly performance review – (March 2005 – December 2005)
	B 10	Facilities management reports – (December 2005 – June 2006) Various internal correspondence – (June 2006 – March 2007) Quarterly performance review – (March 2006 – December 2006)
	B 11	Facilities management reports – (September 2006 – March 2007) Supplier systems reports – February 2007 Various internal correspondence – (April 2007 – October 2007) Quarterly performance review – (March 2007 – December 2007)
	B 12	Analysis of contract performance (March 2007) Various internal correspondence – (December 2007 – April 2008) Base line cost review – October 2007 Legal and audit review notes – December 2007
	B 13	Team review of performance minutes and notes – December 2008 Various internal correspondence – (June 2008 – October 2008) Facilities management reports – (September 2007 – June 2008) Options paper – September 2008
	B 14	Exercise of option – February 2009 Supplier acceptance letter – February 2009 Circulars to staff and stakeholders – February 2009 Senior management correspondence – (December 2008 – January 2009) Various internal correspondence – (November 2008 – March 2009)
C	C 1	Outsourcing of real estate functions contract – April 2006 Appendices to contract – April 2006 Correspondence various relating to CRE outsourcing (December 2005 – March 2006) Senior manager direction to proceed to outsourcing (November 2005)
	C 2	Organisation chart and hierarchical organisation – September 2005 Internal correspondence regarding outsourcing and staff entitlements (November 2005) Property Department Costings – January 2006 Circular to property division staff – February 2006
	C 3	Various tender correspondence to suppliers – January 2006 Human resource policy manual – outsourcing arrangements – November 2005 Property Division Services Manual – December 2005 Internal correspondence with various departments (January 2005 – February 2006) Senior management memorandums to property division (January 2006- March 2006)
	C 4	Supplier correspondence regarding tender – (March 2006 – May 2006) Supplier tender documentation and ancillary – (February 2006 – March 2006) Tender review paper – May 2006 Internal correspondence to organisational staff (March 2006 – June 2006) Staff meeting notes – May 2006 Internal correspondence and memorandums on services to be outsourced – March 2006 General approach to outsourcing specifications – April 2006
	C 5	Implementation timetable and program specifications – June 2006 Correspondence between supplier and organisation (May 2004-June 2004) Circulars to staff and third party suppliers re tender – May 2006 Internal various correspondence regarding service level agreements – (May 2006 – July 2006)

Case	Doc	Description of Documents
		Project team minutes (June 2004 – July 2004) Property division system reports and asset register – January 2006 Senior management approval to resourcing transition – April 2006 Service Level Agreement – May 2006
	C 6	Operational manual outsourcing day to day operations – May 2006 Various internal correspondence (July 2006 – August 2006) Property strategy 2006/2007 – August 2006 Supplier hierarchy and authority manual – May 2006
	C 7	Monthly supplier activity reports (July 2006- December 2006) Various internal correspondence (September 2006 – November 2006) Contract review meeting notes – (July 2006 – January 2007) Discretion and authority policy – (August 2006)
	C 8	Supplier system reports – call centre performance – October 2006 Stakeholder satisfaction survey – January 2007 Various internal correspondence (December 2006- March 2007) Quarterly supplier performance reviews (April 2007 – January 2008) Supplier correspondence various (July 2007 – March 2008)
	C 9	Property sales strategy – January 2008 Various internal correspondence (April 2007 – November 2007) Quarterly supplier performance reviews (March 2008 – December 2008)
	C 10	Stakeholder complaints of supplier performance – April 2008 Various internal correspondence (November 2008 – December 2008) Supplier letter to senior management response – May 2008 Contract management meeting notes – July 2008 Quarterly supplier performance reviews (January 2009 – April 2009)
	C 11	Supplier correspondence to organisation (November 2008 – January 2009) Internal correspondence on service level agreements – various (November 2008 – March 2009) Property Department financial reports (January 2009) Internal review assessment to senior management (December 2008)
	C 12	Systems and costing review – December 2008 Stakeholder correspondence – various (November 2008 – March 2009) Service Level Agreement revision document – March 2009 Review of performance and operations various – (December 2008 – April 2009) Various internal correspondence regarding options (January 2009 – May 2009)
	C 13	Senior management internal correspondence on direction (October 2008 – January 2009) Supplier tender documentation (January 2009 – February 2009) Analysis paper and related correspondence – March 2009 Circular to staff on outsourcing process – March 2009
	C 14	Correspondence between supplier and organisation on continuation (March 2009 – April 2009) Continuation letter between supplier and organisation – April 2009 Circular to staff and third party suppliers – (April 2009 – May 2009)
D	D 1	Outsourcing of real estate services contract – December 2003 Attachments and supporting documentation to contract – December 2003 Business case for outsourcing and supporting documents – (July 2003 – September 2003) Council hierarchy chart (August 2003) Internal correspondence various on general outsourcing initiatives – (January 2003 – November 2003) Council Competitive Tendering Guidelines – Version 2001
	D 2	Analysts review of risks and baseline costs – June 2003 Various analysis templates – excel 2003 formats – August 2003 Various internal correspondence (January 2003 – October 2003) Project team meeting notes (March 2003 – September 2003) Research of property services outsourcing market – June 2003

Case	Doc	Description of Documents
	D 3	Supplier capability documentation and draft request for proposal (June 2003- September 2003) Ethics Officer Reports (June 2003 – December 2003) Project team meeting notes – supplier selection process (June 2003 – November 2003) Service level agreement (SLA's) drafts (May 2003 – September 2003) Various internal emails and memorandums – (July 2003 – December 2003)
	D 4	Various supplier correspondence (September 2003 – November 2003) Request for proposal and ancillary documents (August 2003- November 2003) Analyst's reports into risk, supplier and costs – (May 2003 – November 2003) Various internal correspondence between council departments (July 2003 – December 2003) Proforma contract operational specifications – August 2003
	D 5	Supplier systems notes and analysis – November 2003 Property asset register, file and documentation listing – October 2003 Stakeholder input into final SLA's – November 2003 Independent audit and legal review correspondence – (September 2003 – December 2003)
	D 6	Project team notes on transition – October 2003 Circulars to staff – transition – (October 2003 – November 2003) Various internal correspondence (August 2003 – October 2003) Supplier reference and checking notes (October 2003)
	D 7	Implementation program and timetable – November 2003 Legal signoff to staff matters – October 2003 Proposed operation manual – November 2003 Circulars to staff and third parties on contract impact – November 2003 Supplier system review and analysis – October 2003 Various internal correspondence - pre contract issues (October 2003- November 2003)
	D 8	Supplier and organisation meeting notes (January 2004 – April 2004) Various internal correspondence (January 2004 – May 2004) Performance reports (January 2004 – July 2004) Supplier system audit review and rectification report – June 2004 Manual of operating authorities and discretions – March 2004
	D 9	Various internal correspondence – (July 2004 – December 2004) Performance reports – (August 2004 – February 2005) Supplier and organisation meeting notes (May 2004 – December 2004)
	D 10	Stakeholder survey – August 2005 Various internal correspondence – (March 2005 – December 2005) Performance reports (June 2005- May 2006)
	D 11	Legal review of contract – August 2008 Property services budget 2008/2009 – June 2008 Various internal correspondence – (February 2006 – June 2007) Performance reports (December 2006- June 2008)
	D 12	Various internal correspondence (August 2007 – July 2008) Options review reports (August 2008 – October 2008) Costing review – Property Services Department – June 2008 Directors correspondence various (January 2009 – March 2009)
	D 13	Short form proposal to suppliers – December 2008 Correspondence various between suppliers and organisation (December 2008 – March 2009) Analyst review of supplier options and recommendation – (February 2009 – March 2009) Divisional directors signoff to continuation of contract– March 2009 Letter of continuation – March 2009

Case	Doc	Description of Documents
E	E 1	Contract for the provision of property management services – December 2004 Various internal correspondence (May 2004 – November 2004) Review of property management options (July 2004) Corporate profile and organisational hierarchy – June 2004 Business profile and store location – June 2004 Stakeholder correspondence various on outsourcing – (July 2004 – October 2004) Circular to third party suppliers – September 2004
	E 2	Business case baseline, risk analysis and evaluation templates – July 2004 Correspondence regarding business case – (July 2004 – September 2004) Various internal correspondence regarding Service Level Agreements (September 2004 – January 2005) Project team minutes (September 2004 – December 2004)
	E 3	Legal documentation drafts – November 2004 Legal review to process and other requirements – October 2004 Various internal correspondence on supplier selection (July 2004 – November 2004) Senior management correspondence various – (August 2004- December 2004)
	E 4	Pre tender documentation (May 2004 - July 2004) Request for proposal and ancillary documents – August 2004 Analyst report into supplier evaluation and recommendation – November 2004 Risk analysis templates and audit review – September 2004 Supplier feedback correspondence various (September 2004 – October 2004) Draft operational rules – October 2004 Circulars to staff and third party stakeholders (November 2004 – December 2004)
	E 5	Various documents on staff, files and assets transfer – November 2004 Internal correspondence re systems – (August 2004 – February 2005) Staff Employment Award 2002 Project team transition planning initial review and report – November 2004
	E 6	Transition program and implementation review – November 2004 Communication program – October 2004 Outsourcing operations manual – final version – February 2005 Training program supplier and organisation staff – (November 2004 – February 2005)
	E 7	Various internal correspondence – (April 2005 – August 2005) Senior management meeting minutes (February 2005 – June 2005) Performance reports (March 2005 – September 2005)
	E 8	Relationship committee meeting minutes – (April 2005 – July 2006) Various internal correspondence (November 2005 – August 2006) Stakeholder survey of outsourcing performance – December 2006 Supplier system reports – call centre volumes – January 2007
	E 9	Various internal correspondence – (November 2006 – May 2007) Annual performance review report – December 2007 Financial budget and reports – June 2007 Capital budget and expansion program report – December 2007 Supplier performance and rewards assessment – January 2008
	E 10	Various internal correspondence – (August 2007- June 2008) Relationship committee meeting – September 2008 Training schedule 2008/2009 financial year – August 2008
	E 11	Property management internal reports – (September 2006 – March 2007) Supplier systems reports – February 2007 Various internal correspondence – (April 2007 – October 2007) Quarterly performance review – (March 2007 – December 2007)

Case	Doc	Description of Documents
	E 12	Supplier tender various documentation – (January 2009 – March 2009) Various internal correspondence – (December 2008 – April 2009) Options and costing review papers – September 2008 – January 2009 Stakeholder correspondence on SLA's – November 2008
	E 13	Various internal correspondence – (December 2008 – May 2009) Variation of contract – May 2009 Options paper and audit/legal review various – September 2008 – February 2009

Appendix 5 : Focus Group Participants

Identifier	Background of Focus Group Participant
Focus P-1	Independent property consultant with some 20 years experience in facility management and property services experience for government and local government.
Focus P-2	Head of Property Management Services for a major Melbourne real estate company and has 15 years in property management including asset management and property outsourcing services.
Focus P-3	Retired former property asset manager for a large Australian institutional property fund. Involved in the tendering of property management outsourcing services for this listed fund's property assets.
Focus P-4	Property and Facilities Manager for a large Melbourne office complex that in 2009 outsourced its inhouse property management operations to an independent third party supplier.
Focus P-5	Facilities Manager for a bulky goods warehouse and logistics entity based in Melbourne's south eastern suburbs.
Focus P-6	Building maintenance contractor and director of company that provides building maintenance outsourcing services to major industrial corporations in Melbourne's northern and western industrial precincts.

Appendix 6 : Focus Group Briefing Letter

15 September 2010

Addressee

Dear Sir/Madam,

Re: Focus Group Session – October 12, 2010 commencing 11am

I refer to our discussions and thank you for accepting to participate in the focus group session proposed for October 12, 2010 at the RACV Club (501 Bourke Street Melbourne) commencing 11am and expected to conclude at 1pm. Please enter via the main Bourke Street entrance and I will sign you in and escort you to our conference room on level 2. The room is booked in my name and should you have need to contact me or have trouble gaining access, please call me on 0424 144 454.

I have enclosed as an attachment to this letter the success factors framework that will be subject to our focus group discussion. It would be appreciated if you could study this document ahead of our group session. The focus group session will address the following in respect to the outsourcing success factors framework:

- Determine whether the corporate real estate outsourcing framework provided as an attachment contributes to the knowledge of corporate real estate outsourcing
- Determine whether the corporate real estate outsourcing framework is useful to industry practitioners involved in the outsourcing of corporate real estate
- Provide any other comments on the corporate real estate outsourcing framework that you consider important

I look forward to the focus group session. Should you wish to contact me, please do so on my mobile 0424 144 454. I have also enclosed as further attachment a confidentiality undertaking in respect to your participation in the focus group.

Yours faithfully,

Pasquale Franzese

Appendix 7 : Confidentiality Undertaking

15 September 2010

Addressee

Dear Sir/Madam,

Re : Confidentiality Undertaking

Thank you for participating in the focus group session for purpose of research pertaining to a thesis titled 'A Framework for the Successful Outsourcing of Australian Corporate Real Estate'. This thesis is required for fulfilling the requirements of the Doctor of Philosophy degree at Victoria University of which I am currently enrolled as a research student. Your participation in the focus group is conducted with the understanding and undertaking that:

1. You and/or your firm will not be identified in the thesis by name or in a manner that can identify you or your firm. All references to individuals and/or firms in the thesis will be coded in a manner that does not identify you or your firm.
2. The focus group discussions will not be taped and transcript notes of the session made by me will be kept private and confidential.
3. The notes of the session will not be made available to any other party with the exception as required by Victoria University rules to my supervisor or co-supervisor.
4. The focus group session and session notes are intended solely for the purposes of my academic research and for no other purposes.

Should you have any further queries, please contact me on my mobile 0424 144 454. I look forward to seeing you at the focus group session on October 12, 2010.

Yours faithfully,

Pasquale Franzese