

Procurement outsourcing in large New Zealand organisations

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A dissertation submitted in partial fulfilment of the requirements for the degree
of Master of Project Management (MPM).

UNITEC New Zealand Institute of Technology. March 22nd 2007.

Abstract

The aim of this research is to identify future plans for outsourcing of procurement in large New Zealand organisations.

Outsourcing as a business strategy is growing internationally; organisations are now outsourcing a wider range of business functions than ever before. This trend is expected to continue as organisations look for ways to reduce costs and increase effectiveness. Whilst accounts of successful outsourcing projects are common, many organisations report dissatisfaction with outsourcing experiences.

Factors that contribute to successful outsourcing projects include;

- Carefully clarifying objectives
- Paying close attention to performance management
- Actively managing the outsourcing arrangement
- Giving responsibility to executives talented with exceptional relationship management skills

Outsourcing of business procurement activities has also increased in popularity in recent years with significant international growth predicted. Outsourcing is becoming a more common business activity in New Zealand but little is known about the outsourcing of procurement activities and expected trends in New Zealand.

This research considered literature on outsourcing and procurement and surveyed seven large New Zealand organisations chosen from across industry sectors to approximately reflect procurement outsourcing trends. All participants have considered outsourcing procurement activities to varying degrees but prefer to retain control of procurement in-house. All have evaluated outsourcing opportunities however only two used structured outsourcing models to guide this process. This research identified a need for a model to provide a guiding framework for outsourcing procurement projects.

Whilst the willingness of the surveyed organisations to consider outsourcing procurement is consistent with the literature on this subject; this study found that New Zealand organisations are significantly more cautious about the potential for outsourcing procurement. This cautiousness is related to concern about the size and capability of the New Zealand market and perceived risks to business performance.

This research has limitations in that the sample of seven New Zealand based organisations is small, further research could include a wider sample with a larger number of respondents from participating organisations. This approach enabled the blending of procurement and strategic business outsourcing experiences and provided answers to the research question posed. It also identified opportunities for further research and development of a procurement outsourcing model.

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1. Introduction

1.1. Scene Setting

Outsourcing is a strategic sourcing option that is increasingly being adopted by organisations across a wide and complex range of business functions (Hanson & Olson, 2005).

Whilst outsourcing can offer organisations the potential to save money and improve business effectiveness (Domberger, 1998; Greaver, 1999), there are many lessons to be learned from those with outsourcing experience, with as many negative outsourcing stories as positive ones.

This dissertation considers the key drivers for large New Zealand organisations to outsource procurement activities. With a focus on a small number of representative organisations, it evaluates satisfaction with outsourced procurement initiatives to date and identifies developing trends.

The author has over 20 years procurement and project management experience in a variety of industries; including manufacturing, distribution and government in New Zealand, Ireland and Europe. This research provides an opportunity to consider procurement development towards outsourcing and incorporates a perspective on the application of project management techniques.

1.2. Purpose / Rationale

The purpose of this research is to expand understanding of outsourcing procurement projects in New Zealand, including;

- *Business drivers and links to organisational strategy*
- *Models employed*
- *Outsourcing objectives*
- *Satisfaction levels with procurement outsourcing projects*
- *How the projects have been managed*
- *Plans for the future*

1.3. Aims & Research Objectives

This study focuses on the question;

What is the future potential for outsourcing procurement activities in large NZ organisations?

This question will be answered by reviewing literature on this subject, surveying seven large New Zealand organisations and analysing key themes from the data. It will explore:

- which business activities these organisations consider part of procurement
- which procurement activities have been outsourced
- links to organisational strategy, outsourcing strategy and outsourcing activities
- the evaluation criteria used when making procurement outsourcing decisions
- the outsource management structure and process
- the level of satisfaction organisations have experienced with procurement outsourcing
- future intentions with regard to procurement outsourcing

1.4. Document Structure

This dissertation is set out in 5 main sections.

- Literature. The initial focus is on available literature and examines major themes associated with outsourcing procurement internationally and within New Zealand. The literature is reviewed under the following headings;
 - Definitions
 - Outsourcing history and trends
 - Recent outsourcing developments
 - Why outsource?
 - Positive outsourcing trends

- Need for caution
 - Outsourcing success and failure
 - To outsource or not to outsource?
 - Deciding not to outsource
 - Some side effects of outsourcing
- Research Methodology. The methodology for this research is described including the data collection methods, information on the survey participants and ethical considerations.
- Research Findings. This section summarises research data from the questionnaire, participant interviews and document review. Participants are from the following sectors;
- Utilities
 - Tourism & Freight
 - Logistics, Distribution & Banking
 - Government Administration
 - Tertiary Institute
 - Banking, Finance & Insurance
 - Electricity Generation, Trading & Retailing
- Discussion Themes. The main themes emerging from the research are then identified and discussed with integration of literature and survey findings, these are;
- Evolving outsourcing business drivers for NZ organisations
 - Alignment of strategy to outsourcing and procurement
 - Evolving role of procurement
 - Outsourcing, emerging principles
 - Selection of activities to outsource
 - Procurement outsourcing in practice
 - Laissez faire approach to outsourcing

- Conclusions. The dissertation concludes with recommendations, identification of limitations of this research and a further study proposition.

1.5. Parameters / Limitations

The sample has been limited to a relatively small number of organisations (seven), because of the time consuming nature of the data collection methods and the size of this research dissertation. Participants were six procurement managers and two senior executives with wider responsibilities including strategic planning.

While this approach has enabled the blending of procurement and strategic business procurement outsourcing experiences, it also raised the potential for more in-depth case study analysis in the future. The small size and potential bias of the sample also limits the ability to generalise from the research.

2. Literature Review

The author has management experience in a variety of industries and has developed a growing awareness of outsourcing as a procurement and business strategy. Outsourcing procurement has gained prominence, where organisations engage outside specialists to manage selected purchasing and procurement functions that might otherwise be managed in-house. This topic has been selected because of the remarkable growth of procurement outsourcing as a business strategy in recent years; the author is interested in the influences on procurement practices and on project management because of the potential for applying project management methodologies when considering outsourcing opportunities.

2.1. Definitions.

In order to define outsourcing procurement it is useful to analyse the meaning of each term.

Definitions of outsourcing vary but follow a consistent theme. Greaver (1999) describes outsourcing as “the act of transferring some of a company’s recurring internal activities and decision rights to outside providers as set forth in a contract” (p.3). The definition is expanded with the view that outsourcing serves and extends an organisation’s existing procurement infrastructure, managing the process and spending categories that the organisation feels it has opportunities to improve but lacks the internal expertise to manage effectively, (Hazra, 2004). The simplest and perhaps clearest definition may well be that contained in a standard dictionary, “Outsource: to contract out” (Oxford Concise Dictionary, 1999).

Procurement can be defined as the process required to acquire goods & services, (Project Management Institute, 2004). There is very little variation in procurement descriptions in New Zealand or internationally; e.g.

- The provision of goods, supplies and services to keep the company in operation (Farney, Pooler & Pooler, 2004) .

- Buying goods and services (Handfield, Monczka & Trent, 2005).
- The process of deciding how to provide required goods or services (Office of the Controller and Auditor-General, 2001).

Definitions for outsourcing procurement are a combination of both components, (Poisson, 2003) describes this as, “transferring the operation of sourcing and spend management to a third party service provider” (p.64). Hanson and Olson (2005), have a similar but more detailed definition, “the transfer to a third party of all or part of a range of sourcing-to-settlement processes including sourcing, tactical buying, requisitioning, accounts payable and supplier management” (p.18).

While it can be helpful to consider definitions from literature, in the author’s view, the following summary of features are more useful when considering what is meant by outsourcing procurement;

- Relying on an external party to provide tailored procurement services
- Utilising expertise of a third party to deliver targeted and complimentary procurement services to an organisation.

2.2. Outsourcing History & Trends

Outsourcing has been used throughout recorded history, as long ago as the 4th century the defence of the Roman Empire was outsourced to Barbarian mercenaries; the poor performance of this outsourcing arrangement is considered to be one of the elements which led to the downfall of the Roman Empire (Halvey & Melby, 2000). An example of successful outsourcing (Domberger, 1998), was the awarding of contracts by the British Royal Navy for the transportation of convicts from Ireland to Australia in the 18th century. This practice was a success in that it guaranteed supply of services, logistics arrangements and costs for the Royal Navy as well as the outsourcing merchant shipping companies. Domberger suggests the only people the arrangement did not suit were the convicts themselves, since the contract system guaranteed their miseries and often their deaths.

Halvey and Melby (2000) discuss how the outsourcing concept gained popularity during the mid twentieth century led by the heavy engineering and automobile industry search for partners to provide subassemblies to increase manufacturing outputs. From the 1950's as industrial growth accelerated, traditional organisations preferred to adopt a vertically integrated approach where they believed they should own each stage in the design to delivery process thereby controlling the supply chain (Farney et al., 2004).

Greaver (1999) identified how the term "outsourcing" was first used in the late 1980's by the Information Systems trade press to describe the trend of large companies transferring their information systems to specialist providers. Large high profile organisations such as Kodak and DuPont were at the forefront of this evolution by outsourcing information technology management. Davenport (2005) describes how this evolved from the outsourcing of products to the outsourcing of business processes as companies like BP and Procter & Gamble outsourced major pieces of their finance functions, while Nike and Hewlett-Packard outsourced much of their manufacturing, often sending it overseas. In the early 1990's successful outsourcing in the US private sector led to significant public sector outsourcing of non-core business functions. Those involved and affected have mixed views on procurement outsourcing, from those who see it as a threat to their jobs and familiar processes (Govpro, 2005), to those who see it as an alternative procurement tool and important business strategy (Heffes & Marshall, 2004).

2.3. Recent Outsourcing Developments.

In his analysis for the Accenture Group, Chong (2004) reports how outsourcing of procurement activities has become more popular in recent years. As organisations are becoming more confident in business process outsourcing, procurement activities are now being targeted to provide improved expertise, cost reduction and better business value. A report for the Gartner group predicts that following the trend for HR outsourcing, companies in all sectors, but especially those in the finance, manufacturing and utility sectors, will choose to pursue procurement outsourcing opportunities, where drivers include (Tornbohm, 2005):

- The need for better management and compliance in sourcing practices
- The need to manage and cut procurement costs in, for example, the marketing department, where an outsourcing provider showed that they can cut costs by 26 percent by applying their skills to advertising expenditure.
- The decline in electronic marketplaces, which includes the use of intranet based procurement systems, means companies are seeking new ways to source services and materials.
- Large international companies like IBM and HP, as major global purchasers of indirect materials, can leverage buying power to achieve better, consolidated deals.

A wide range of business processes can be incorporated in procurement outsourcing (Pring, 2006), a summary table follows;

Table 1. Outsourced Procurement Processes.

– Category management	– Bid preparation and management (including Web-based auctions)
– Expenditure analysis	– Contract management and compliance
– Strategic sourcing	– Cost analysis
– Supplier market research	– Transaction management
– Supplier qualification and selection	– Supplier relationship management
– Supplier e-enablement	
– Request for proposal management	

However, growth in outsourcing procurement is being held back by several factors, including:

- A lack of understanding of what procurement improvements are possible.
- The legacy of the over hyped electronic marketplaces, intended to deliver efficiencies and cost savings, some of which did not produce the desired results.

- Companies viewing procurement as an area already optimized by procurement professionals. (Tornbohm, 2005).

Whilst there is some evidence of increasing interest in outsourcing procurement activities in NZ (Expense Reduction Analysts, 2005), there is little literature to be found on this subject. In the author's experience as a procurement professional in New Zealand and Europe, a willingness has been noticed for organisations to outsource a growing range of business processes. Whilst aware of some organisations moving to outsource selected procurement activities, the author has not experienced an evaluation of outsourcing this business process, nor been able to find any literature on the success or failure of these initiatives in New Zealand.

2.4. Why outsource?

Reasons organisations choose outsourcing are linked to business performance and improvement. Initial decisions to outsource were based almost entirely on expected financial benefits (Greaver, 1999), with any other business improvement benefits seen as secondary (Halvey & Melby, 2000). An internet survey by the Outsourcing Institute of global business executives identified the following 10 reasons for procurement outsourcing;

1. Reduce and control operating costs
2. Improve company focus
3. Gain access to world-class capabilities
4. Free internal resources for other purposes
5. Resources are not available internally
6. Accelerate reengineering benefits
7. Function difficult to manage/out of control
8. Make capital funds available, (from outsource provider)
9. Share risks
10. Cash infusion, (when internal investments are constrained)

(The Outsourcing Institute, 2005b).

Whilst most authors agree with these reasons for outsourcing, Hanson and Olson (2005) prefer to focus on just three key benefits, “lower costs, increased focus on core competencies and improved operating performance” (p.18).

Halvey and Melby (2000) go further and include the following additional reasons;

- Enhancing and improving methodologies and processes
- Benefiting from industry knowledge or experience
- Streamlining and standardising processes across an organisation
- Sharing resources or technologies
- Committing less upfront investment to new methodologies

Driving lower operating costs and better business performance as benefits of procurement outsourcing are implied by Halvey and Melby (2000) without being explicit in their listing.

A survey of real estate management practices of over 457 New Zealand organisations (Hayward & McDonagh, 2000) identified outsourcing of business processes as a growing trend but highlighted that 65% of respondents did not have a written outsourcing strategy.

Whilst consistent with the themes identified by other authors, Greaver (1999) suggests consideration of a balanced range of business drivers when evaluating a potential outsourcing opportunity and the subsequent monitoring and measurement of the success of each outsourcing project. Greaver’s outsourcing reasons are paraphrased in the following table:

Table 2. Reasons for Outsourcing.

Summary of Business Reasons for Outsourcing (Greaver, 1999)	
<u>Organisationally Driven</u> <ul style="list-style-type: none"> ○ Enhancing effectiveness by focusing on core business ○ Increase flexibility ○ Make organisational change ○ Increase product and service value 	<u>Improvement Driven</u> <ul style="list-style-type: none"> ○ Improve operations, quality, productivity, cycle times ○ Obtain expertise and skills not otherwise available ○ Improve management and control ○ Improve risk management ○ Acquire innovative ideas ○ Improve credibility by aligning with superior providers
<u>Financially Driven</u> <ul style="list-style-type: none"> ○ Reduce asset investment ○ Generate cash by transferring assets 	<u>Cost Driven</u> <ul style="list-style-type: none"> ○ Reduce costs by using expert provider's products and lower cost structures. ○ Change fixed costs into variable costs
<u>Revenue Driven</u> <ul style="list-style-type: none"> ○ Gain new market opportunities through outsourcing provider ○ Faster expansion by utilising provider capacity, processes and systems ○ Commercial focus and potential opportunities to exploit existing skills 	<u>Employee Driven</u> <ul style="list-style-type: none"> ○ Offer employee stronger career path ○ Increase commitment, focus in non-core business areas

Greaver acknowledged that this list is not exhaustive and that it will vary depending on the industry, most authors quote similar reasons. Gay and Essinger (2000) include;

- To deal with a function that is difficult to manage or possibly out of control.
- Accelerate reengineering benefits.

It may be more useful to initially consider the outsourcing reasons at the highest level to help develop a business perspective rather than drilling into specific detail. In a recent interview at The Outsourcing Institute, Dr James

Quinn, (a professor of management at Dartmore University specialising in the study of outsourcing), gave one very simple but profound argument for organisations to consider outsourcing, “If you are not best in the world in doing something and are doing it in-house, you are giving up competitive edge. You could outsource to the best in the world, up the value and lower the cost” (The Outsourcing Institute, 2005a, p1).

2.5. Positive Outsourcing Trends

Outsourcing of business processes globally is expected to increase significantly over the next five years. A recent survey of procurement directors polled in major industrial countries found that most intend to substantially increase outsourcing activity (Heffes & Marshall, 2004). In February 2005 the Harvard Business Review commented on a Bain survey of large organisations in Europe, Asia Pacific and North America, which identified that 82% have outsourcing arrangements of some kind (Gottfredson, Phillips & Puryear, 2005). The overall values associated with outsourcing are startling. Reporting on global outsourcing, the United States Employment Policy Foundation identified an increase in outsourcing value from US\$364 billion in 1980 to US\$1.6 trillion in 2002. Industry analysts estimate this figure will be close to US\$6 trillion by end 2007 (Kelly-Services, 2005).

Global spending on procurement outsourcing has not been well reported. The Gartner group (Pring, 2006) estimate the global worth to be US\$2.9 billion with growth expected of 17% annually to US\$10 billion by 2010. In contrast Wilmott (2004) estimates the overall outsourcing procurement market at US\$200 million and expected growth to \$640 million by 2008. The huge difference in estimates and difficulty in finding additional sources suggest that this business area is not yet well understood (Beaumont & Sohal, 2004) and reflect inconsistencies in the business activities which make up procurement.

2.6. Need for Caution

Whilst a lot of literature emphasises the increasing popularity of outsourcing, there are also important cautionary notes coming from organisations that have

had negative outsourcing experiences. Mears (2005) and Halvey and Melby (2000) identify the need to ensure the organisational culture is open to outsourcing as well as consideration of the impact outsourcing can have on staff morale and culture. In addition to the risk of institutional knowledge loss by outsourcing (Becker & Zirpoli, 2003), an international study for Deloitte Consulting (Mears, 2005) found that very few organisations realised the expected benefits from outsourcing arrangements and that in a survey of 25 large organisations, (combined outsourcing contract value of US\$50 billion per/annum), 70% reported negative experience with outsourcing projects and are now taking a more cautious approach. One in four surveyed has brought outsourced functions back in-house.

It is becoming clearer that organisations need to alter their approach to outsourcing as the economy becomes more globally focused with less emphasis on pure cost saving and increased emphasis on a broader range of business improvement opportunities (Beaumont & Sohal, 2004; Bonifazi, Desouza & Power, 2004; Gottfredson et al., 2005)

2.7. Outsourcing Success and Failure.

As the trend towards outsourcing continues, experience enables organisations to better understand the critical considerations required to increase the likelihood of success. The Accenture outsourcing survey found the more experience organisations have at outsourcing the better they are at doing it (Chong, 2004; Gay & Essinger, 2000), and that experienced outsourcers, (defined as organisations with two or more years of outsourcing experience), followed some unofficial but consistent guidelines, these included;

- Clarifying objectives
- Paying close attention to performance management
- Incorporating business outcomes as performance measures from the arrangement's outset
- Selecting outsourcing providers with a wide skill-set
- Using risk/reward provisions as incentives for higher performance outsourcing
- Actively managing the outsourcing arrangement for maximum performance

- Tasking executives talented with exceptional relationship management skills with optimising outsourcing arrangements

Accenture maintain that these guidelines are critical for successful outsourcing. They also concluded that high performing procurement outsourcing can be directly aligned to high performing businesses. This view is supported by business improvement authors not focused specifically on procurement outsourcing; Kleiner et al. (1999) point out that organisations that perform exceptionally well require specialisation, innovation and continuous learning involving all business stakeholders. The CEO of the Semco group of companies, passionately advocates that any business activity that can be done better by someone else, should almost certainly be outsourced (Semler, 2003). The New Zealand perspective draws parallels between effective supply chain management, outsourcing and creating business value, however outsourcing does not yet seem to have taken hold in New Zealand (Bailey & Norina, 2003; Basnet, Corner, Kea-Choon & Wisner, 2003).

The characteristics of organisations that outsource effectively relate very well to the key reasons for outsource dissatisfaction or failure, a selected summary is included in the following table;

Table 3. Reasons for Outsourcing Failures.

Summary of Reasons for Failure of Outsourcing	
Outsource Institute (2005)	Mears (2005)
<ul style="list-style-type: none"> ○ Too much focus on cost saving ○ Lack of trust ○ Culture differences and impacts ○ Loss of control ○ Management / Employee resistance 	<ul style="list-style-type: none"> ○ Insufficient preparation ○ Complexity of arrangements ○ Friction between parties ○ Slow ability to respond ○ Loss of flexibility ○ Unexpected management time and costs
Greaver (1999)	(Komninos, 2002)
<ul style="list-style-type: none"> ○ Management / Employee resistance ○ Too busy to focus on outsourcing well ○ Unwilling to make changes and follow through on difficult decisions 	<ul style="list-style-type: none"> ○ Ignoring customer needs ○ Ignoring the importance of leverage ○ Non assigning clear accountability to managing outsourcing provider

2.8. To Outsource or Not to Outsource?

This discussion needs to go beyond the point when organisations decide that outsourcing will be part of their business strategy into the consideration and process for evaluation of outsourcing opportunities and the selection of outsourcing providers (Gottfredson et al., 2005). A starting point for many organisations is to examine which of their activities and processes are not part of their core-business and therefore potential candidates for outsourcing (Greaver, 1999). A recent survey identified, freight/logistics, fleet management & operations, records management, purchasing and call centre operations among the fastest growing outsourcing areas (The Outsourcing Institute, 2005b).

Having identified non-core activities, Domberger (1998) emphasises the importance of developing a “framework of analysis which provides a structured, systematic approach to contracting decisions and outsourcing strategies” (p.9). Farney et al. (2004) and Gay and Essinger (2000) describe the importance of formal procurement procedures in creating a global vision for outsourcing and selecting outsourcing providers.

However, even when organisations set out to carefully evaluate an outsourcing opportunity, making accurate comparisons of internal processes relative to external providers can be extremely difficult (Hayward & McDonagh, 2000). There is a huge variation in how organisations define processes such as Order-Entry or Accounts Payable and little standardisation in how organisations deliver and manage these processes. Davenport (2005) argues it is therefore very difficult to compare what happens internally to what is on offer externally. Davenport goes on to describe the benefit of establishing business process standards for use in outsourcing decisions and to facilitate improvement of internal capabilities.

Acknowledging that specific skill-sets are required to outsource, then developing the expertise and supply of outsourcing skills is likely to continue to gain momentum. Govpro (2005) discussed the changing role of the

procurement professional and Hazra (2004) describes how it has become critical to take a longer term, balanced, strategic view of outsourcing opportunities. Gay and Essinger (2000) suggest that a strategic approach to outsourcing is most effective when organisations are prepared to adopt a new perspective on management control with the focus on output rather than inputs, these views are supported by Quinn in a recent interview;

Companies might have brilliant designers, lawyers etc., but might not have the capability needed for managing outsourcing. They need to have the ability to evaluate alternative cost structures and to understand the strategic risks of outsourcing to one partner versus another. A good outsourcing manager must be able to motivate partners to do what is needed. They must be able to monitor the deal – through software and personal contact – without interfering; to get lead signals they need to maintain strategic control. They need a totally different set of management skills, and the real essence of these skills is a learning capability and willingness.

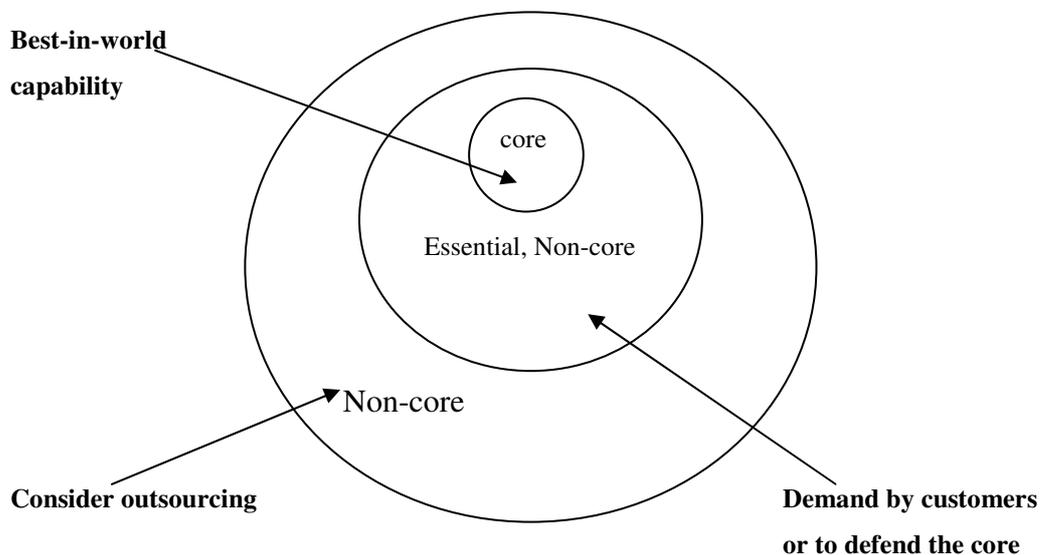
(The Outsourcing Institute, 2005b)

2.9. Outsourcing Models.

Outline: In this section a number of outsourcing models are described. They have been selected to ensure coverage of several stages of the outsource management cycle and are relevant to procurement service outsourcing and New Zealand. Kyte, Stone and Tornbohm (2005) describe business models and specifically designed outsourcing models as essential tools to guide complex decisions.

The following model from Quinn (1999) helps create the distinction between core / non-core business activities and shows how this distinction can help initial outsourcing consideration. Core business is generally associated with essential products, services and processes that directly relate to customers, while non-core relates to indirect or back office business activities and processes (Domberger, 1998). This model helps the user consider which activities are essential to business effectiveness and guides the user to consider non-core business activities for outsourcing.

Figure 1. Core / Non-Core Outsourcing Model.



Taking a narrower focus on outsourcing procurement services the quadrant diagram from Kyte, et al. (2005) is a useful initial guide and also distinguishes between direct and indirect procurement.

Direct procurement is described by Kyte et al. (2005) as sourcing of goods and services that form part of the customer value proposition, most probably linked to core business.

Indirect procurement can be described as the categories of goods and services that fall outside the customer value proposition, usually supporting business core activities. It may be more difficult to justify retaining the sourcing decisions for indirect goods and services in house (Domberger, 1998).

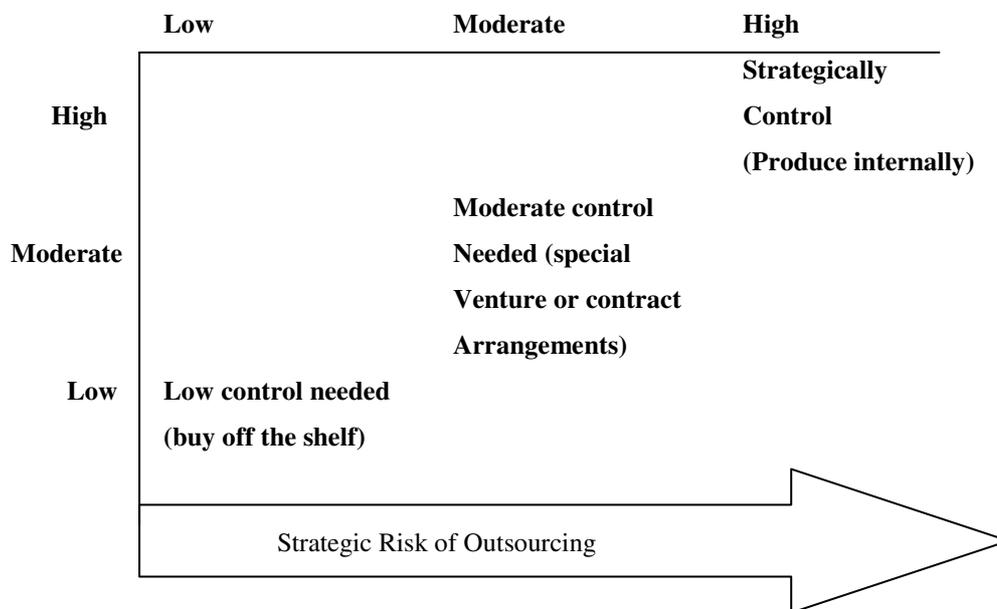
Figure 2. Direct / Indirect Sourcing Model.

Direct	<i>Contact manufacturing</i>	<i>Low penetration for goods</i>
		<i>Some specialist agencies for services</i>
Indirect	<i>Good value proposition but slow growth due to cultural resistance</i>	<i>Good opportunity for category-specific service providers</i>
	Sourcing	Transaction Management

The outsourcing risk model from Quinn (1999) which follows is congruent with the cautious advice offered by many of the authors reviewed (Kyte, Stone & Tornbohm, 2005; Quinn, 1999; Domberger, 1998; Hazra, 2004; Gay & Essinger, 2000), i.e. the greater the perceived risk to the organisation of the business process considered for outsourcing, the greater the need for careful consideration and ultimately the lower the likelihood of making a decision to outsource.

What to outsource? Adapted from Hilmer and Quinn (1994).

Figure 3. Outsourcing Risk Guided Model.



The outsourcing process model also from Quinn (1999), summarises contextual areas that require focus in outsourcing projects. Similar to the PESTLE framework, (Political, Environmental, Social, Technical, Legal, Economic), this suggests that the user considers breadth and depth of issues within the framework of the outsourcing process steps:

Figure 4. Outsourcing Framework Model.

Environmental Level	Organisational Level	Individual or Group Level
Politics/ regulations Technology Society Industry competition	Culture Strategy History and critical incidents Stakeholder demands Resources	Politics Power Control of resources Incomplete information
Outsourcing Process - Idea Formation – Evaluation – Management - Outcome		

Recent research on outsourcing best practices at Carnegie Mellon University (Miller, Spice & Watzman, 2006) claims to be applicable to business process outsourcing. The model is organised into 15 "capability" areas, relating to major areas of effort required when outsourcing. Taking the form of a check-list, this model has a logical structure and has similarities to key project management techniques, (Project Management Institute, 2004; Turner, 1999).

- **Strategy management**, such as developing, aligning and documenting the sourcing objectives of the client organization.
- **Governance management**, such as setting up and implementing procedures to manage internal stakeholders or service providers.
- **Relationship management**, such as establishing and implementing procedures to manage issues and their resolution.
- **Value management**, such as benchmarking processes by comparing performance to other organizations in similar sourcing relationships.
- **Organizational change management**, such as establishing and implementing HR plans to support the sourcing activities.
- **People management**, such as making sure the people with sourcing responsibilities have the competencies they need to do their jobs.
- **Knowledge management**, such as analyzing and using knowledge gained from sourcing activities.
- **Technology management**, such as ensuring that product licenses are managed according to documented procedures.
- **Threat management**, such as establishing and implementing procedures to ensure business continuity of sourced services.
- **Sourcing opportunity analysis**, such as defining the criteria by which to identify sourcing opportunities.
- **Sourcing approach**, such as performing impact and risk analyses of proposed sourcing actions.
- **Sourcing planning**, such as defining and documenting service conditions.
- **Service provider evaluation**, such as evaluating potential providers using documented criteria and procedures.
- **Sourcing agreements**, such as defining the formal SLAs and performance measures for services.
- **Service transfer**, such as planning and tracking the transition of the service.

This is a useful list to guide the steps needed to carefully consider an outsourcing opportunity and manage transition.

2.10. Deciding Not to Outsource.

Outsourcing evaluations which lead to decisions not to outsource can have unexpected positive benefits (Gay & Essinger, 2000). When the multinational company Fidelity Investment, considered outsourcing some of their administrative functions, their evaluation identified that their internal benefit-administration capability was superior to outsource providers and should be kept in-house. Whilst this finding encouraged Fidelity not to outsource this function, it also led to Fidelity developing a successful outsourcing ancillary business, providing benefit-administration services to other businesses (Davenport, 2005). Another example is where the British army instigated an outsourcing evaluation for the provision of military logistics (Skinner, 2003). Cost saving gains were not expected or sought; the key driver was to improve logistics performance and therefore effectiveness of their forces. Skinner describes how a complex internal and external evaluation process involving leading logistics companies concluded that the army should retain much of its in-house processes. Whilst this was unexpected, the evaluation process led to the identification of some internal improvements and boosted morale by affirming the quality of the logistics infrastructure.

2.11. Some "Side Effects" of Outsourcing.

There are recent accounts of serious side effects to 21st century outsourcing practices. Low labour cost countries like China and India have experienced huge growth providing outsourced products and services to more developed Western economies in recent years. However the internal infrastructures in developing countries are often not adequate to cope with such rapid growth. India acknowledges it has benefited financially by providing outsourced services like call centres, software development and back office support, however it has vastly increased the accumulation of waste products.

The low-cost mantra of Indian outsourcing has caused the world's largest environmental disaster ever created. It is estimated that for every US dollar earned by outsourcing in the next twenty years, 30 cents will

be required to go towards removing the high-tech garbage produced from outsourcing work. (India-Daily, 2005).

Whilst it may be reasonable to assume that waste will be produced regardless of where the production is located, this article maintains that unlike more developed nations, less experienced companies in less controlled environments have not factored disposal costs into outsourcing budgets.

As well as the environmental and social questions which remain to be fully answered to ensure the future viability of outsourcing, there are those who suggest that even outsourcing projects that successfully deliver cost savings and performance improvement can still detrimentally impact on the outsourcing organisation. Loss of local jobs, unsettling business process changes, negative impacts on organisational, cultural and loss of in-house expertise are all areas identified in the Govpro (2005) study of Alaska's government outsourcing pilot.

2.12. Literature Conclusion.

Whilst the evidence certainly points towards an increasing trend in outsourcing procurement, there are real concerns with the performance of outsourcing to date. The high dissatisfaction rates reported by Heffes and Marshall (2004) and Mears (2005) link to the continued focus on refining how organisations identify outsourcing needs, standardise business processes, evaluate outsourcing opportunities and develop specific arrangements for managing each outsourcing project (Greaver, 1999).

Outsourcing is increasingly becoming a business strategy (Tornbohm, 2005) with many organisations recognising its potential to provide benefits in excess of cost reductions (Farney et al., 2004; Gay & Essinger, 2000). The tension between the compelling outsourcing business drivers, coupled with some dramatic positive results for organisations that have successfully outsourced, versus the negative outsourcing experiences of many organisations, have led to renewed research interest in this area. Several authors describe the need to change how outsourcing arrangements are managed. There are some useful case studies of both successful and unsuccessful outsourcing experiences,

however as case studies are by definition 'specific', it is difficult to draw clear conclusions that could form a basis for generic outsourcing business guidelines and even more challenging to extend conclusions into guidelines for outsourcing of procurement activities.

Whilst the available literature helps illuminate key issues and trends with outsourcing internationally, current practices and intentions for outsourcing procurement in New Zealand are unclear. The lack of knowledge in this area reinforces the focus of this research project, which is to investigate the future potential for large New Zealand companies to outsource procurement.

3. Research Procedures / Methodology

3.1. Overview / Project Brief.

This research considers outsourcing procurement experiences in large NZ organisations, by;

- *Reviewing literature on this subject*
- *Investigating outsourcing practices of a sample of organisations*
- *Interviewing key informants at those organisations and reviewing available documentation*
- *Comparing the experience of survey sample to the literature*
- *Identifying patterns and trends*

in order to get insights into outsourcing procurement projects, including;

- *Business / project drivers*
- *Models employed*
- *Specific outsourcing project objectives*
- *Level of satisfaction with outsourcing projects*
- *How the projects have been managed*
- *Planned and unplanned effects*
- *Plans for the future*

This research contributes to the development of a procurement outsource model for use in New Zealand and for inclusion in a future project management based procurement capability.

3.2. Research Methodology.

The broad aim of this report is to answer the question: What is the future potential for outsourcing procurement activities in large NZ organisations? It focussed on;

- which business activities organisations consider part of procurement
- which procurement activities have been outsourced
- links to organisational strategy, outsourcing strategy and outsourcing activities
- the evaluation criteria used when making procurement outsourcing decisions
- the outsource management structure and process
- the level of satisfaction organisations have experienced with procurement outsourcing
- Future intentions with regard to procurement outsourcing

A qualitative research approach was preferred in order to explore meanings and develop interpretations of information. The interpretive epistemology of the research is more suited to qualitative research methods as the author did not have a theory to test and sought understanding of subjective decisions, assessments and perceptions (Bell, 2005). Survey research was chosen as it is effective for fact finding and for explanatory and exploratory purposes (Babbie, 1998). It enables answers to key questions of; What? Where? When? How? - and by interpreting the information, helps develop answers to the question Why? (Bell, 2005).

The research focused on a survey of a small number of organisations across industry sectors, utilising semi-structured interviews with senior procurement executives and other senior executives for data collection, coupled with analysis of documentation and archive records.

This approach provided good opportunities to seek clarification and depth, it was also possible to probe responses and ambiguities to uncover motives and feelings in a way that written questionnaires may have concealed (Bell, 2005).

3.3. Sample / Scope.

Because of the time consuming nature of these data collection methods the sample was limited to a relatively small number of organisations (seven), from across industry sectors. This approach was preferred as interviews typically achieve far higher completion rates and have proven to be more effective when researching complicated subjects (Babbie, 1998).

The participating organisations chosen are large NZ organisations, (employing at least 100 people), as international studies show that larger organisations are leading the trend toward outsourcing of procurement activities (Chong, 2004; Tornbohm, 2005). Whilst choosing to study only seven organisations for this project is a small statistical sample, targeting organisations across various industry groups reflects sectors that account for over 90% of organisations employing 100+ people in New Zealand (Statistics New Zealand, 2005).

3.4. Research Limitations

This research has scale limitations in that the sample of seven New Zealand based organisations is small. It was possible to interview only eight people with additional analyses of documentation and archives used to aid triangulation. The size and potential bias of the sample also limits the ability to generalise from the research. Because of the time consuming nature of the data collections methods and the size of the research dissertation it was not possible to expand beyond the scope of this dissertation.

While limitations are acknowledged, this approach has enabled the blending of procurement and strategic business procurement outsourcing experiences, the identification of recommendations for improvement and development of a model framework for possible use in procurement outsourcing projects. It has also identified the potential for more development and in depth analysis in the future; further research could include a wider sample with a larger number of respondents from participating organisations.

3.5. Sample / Participants.

The organisations researched agreed to take part willingly and without payment.

Participation included the chief procurement officer (CPO) and where possible more senior executives across the sample organisations. This approach allowed relevant procurement information to be identified and a perspective on the overall business strategy and performance to be included.

Each organisation was asked to complete a questionnaire to summarise business and procurement activities, to take part in an interview and to provide relevant documents that relate to business strategy, outsourcing procurement projects or evaluations. The same questions were asked of the participants to provide a deeper level of understanding of outsourcing experiences and to ensure a perspective on the overall business objectives was included.

3.6. Analysis.

Analysis included;

- Comparison of outcomes against business and procurement strategies
- Consideration of outsourcing/procurement strategies and processes
- Consideration of potential models for future evaluations

Information from outsourcing procurement experiences was obtained from the representative group of organisations. The data was organised into descriptive themes with diagrams and matrices that were used to aid clarity (Cohen & Manion, 1996) in addition a series of mind maps of related themes were developed and used to help identify patterns, provide comparisons within organisations and to the literature. The research data was considered and discussed in the broader context of current activities, experiences and future plans with conclusions developed on the future potential of outsourcing procurement in large New Zealand organisations.

3.7. Ethics.

Commitments were made to keep information relating to the identity of participants and their organisations confidential. Whilst the importance of anonymity is acknowledged as a contributor to accurate disclosure and objectivity of information provided (Bell, 2005), industry sector information is included in this report to provide a broader contextual perspective to the finding of the research.

Interview and documentary records were coded to preserve anonymity and written consents were acquired from all participants. Refer to appendix 1-3.

3.8. Potential Conflicts of Interests.

Whilst the author has a background in procurement and project management there was no prior professional involvement with any of participants or organisations surveyed. The author no longer works in the procurement field but is motivated to complete this project as an objective academic researcher with the primary objective of increasing understanding of the future potential for outsourcing procurement in New Zealand.

Every effort to retain anonymity of organisations and participant was made. This included protection of commercially sensitive material provided by participants and referencing interview quotes in the final report with job titles and industry sector descriptions rather than participant names and organisations.

4. Interview Results

4.1. Introduction

Interviews were conducted in October 2006. Participants were told that individual and organisational confidentiality would be assured, all agreed to interviews being tape recorded, the recordings were later transcribed to MS Word documents.

Information on the research sample is included below; some data is represented in bands to protect the identity of the organisations involved:

Table 4. Summary Participant Information.

Industry Sector	Turnover	Employees
Utilities	\$50 - \$100 Million	100 - 200
Tourism & Freight	\$2 – \$4 Billion	8,000 - 15,000
Logistics, Distribution & Banking	\$1 – \$2 Billion	8,000 - 15,000
Government Administration	\$200 - \$400 Million	2,000 – 4,000
Tertiary Institute	\$100 – \$200 Million	1,000 – 2,000
Banking, Finance & Insurance	\$1 - \$2 Billion	4,000 – 6,000
Electricity Generation, Trading & Retailing	\$2 - \$4 Billion	200 – 400

Of the 8 people interviewed, 6 were the most senior procurement executives in their organisations and 2 held more senior roles with broader and more strategic management responsibilities. The interviews were semi structured with a set of standard questions used and additional questions added to seek clarity or more depth as appropriate. (Refer to appendix 2)

4.2. Summary of Data from Interviews & Document Analysis.

Outline: In this section the themes identified during interviews are outlined with discrete descriptions by industry sector. Direct quotes are included from survey responses, interviews and document analysis; these are not fully referenced to protect anonymity of participants. Some tables are included which summarise information under standard headings, the tables are used later in the development and discussion of common themes in the report.

The data is summarised under varying themes, however three specific headings are used for all participants, (Major Challenges, 20/20 Hindsight and Plans for Procurement Outsourcing). This approach allows particular focus on subjects raised during interviews while the three consistent headings assist comparisons, later discussions and provide data to answer the research questions.

6.2.1. Utilities

Occupying the challenging ground between supplying specialist services to local authorities, satisfying over 100,000 commercial and residential customers and returning value to shareholders has helped create a clearly focused and innovative company.

Most procurement funds are spent on capital projects and maintenance with a relatively small amount on the purchasing of traditional goods and services such as stationery and travel.

Two executives were interviewed together; a Programme Manager with primary responsibility for procurement and the Chief Executive. Additional documentation including annual report and the strategic plan were also analysed.

- **Core Business / Uniqueness.** They classify business activities as core and non core and use these classifications when considering whether an activity could be outsourced. Core activities are linked to customer management and asset management which are unlikely to ever be outsourced because of the perceived increase in business risk. Non core activities include; designing a pipe and putting it in the ground. According to the Chief

Executive, the distinction between core and non-core is important as it identifies the organisations competitive point of difference. *“If the physical activity is non core, we can’t bring any uniqueness to it. But we do believe we have uniqueness around the way we manage our assets and the way we manage our customers”*. This quote shows the Chief Executive uses identification of core versus non-core business activities to guide their focus in business and outsourcing.

- Leadership. While stating they are committed to developing closer relationships with suppliers and moving towards more sophisticated alliance agreements, they are clearly concerned about risks to service quality and supply by moving too quickly. They need confidence in the capability of the outsource market to provide required services and quality. A benchmarking process is used to compare business activities against similar Australasian organisations, taking particular note of activities of the most innovative. This approach and it’s relevance to outsourcing was summarised by the Chief Executive when he stated; *“want to be leading edge, not bleeding edge”*.
- Procurement Performance. Most procurement activity is associated with capital projects and related maintenance contracts. It is seen as a critical business activity, benefits are measured for each project from the initial scoping/planning to the final result when the procurement process is completed. Over the last two years a saving of approx 9% has been calculated by comparing planned costs, (based on past experiences) with actual results. *“A good measure of efficiency”*.
- Supplier Consolidation. Part of their stated business strategy is to reduce the number of vendors used and develop stronger relationships. Within the last three years they claim to have significantly reduced the number of vendors, in one category the number of vendors has been reduced to 12 from over 40, they now believe they have better vendor relationships and reduced transaction costs. According to the Programme Manager, this approach has also helped current vendors as their position is more secure. *“Getting better services as well as lower costs and our customer service has improved as well. And less involvement for management people with*

customer issues. With continuity for outsource providers the performance of providers has definitely increased with the improvement in the relationship of fewer providers". This quote shows their belief that in addition to reducing costs; the strategy to build stronger relationships with a smaller number of suppliers has improved service and reduced the need for management involvement.

- Relationship Management. Part of improving vendor performance included developing a more sophisticated relationship management structure for each outsourcing contract with a dedicated relationship manager appointed. This involves careful management of expectations and of the key contacts in the relationship. It includes operational relationships and more senior level formal relationships.
- Major Challenge. According to the Chief Executive significant time needs to be invested to effectively manage outsourcing relationships and to ensure the performance of the outsource provider, as evidenced in the following quote. *"When you outsource you still have to be a smart buyer, my nervousness is about passing on responsibility for being a smart buyer without putting enough time into the relationship"*.
- 20:20 Hindsight. The journey to develop and integrate outsourcing and procurement strategies into business strategies took longer than expected. Whilst they claim to have been complimented on the quality of their methodical process and the success of their outsourcing projects, they acknowledge that they could have moved much faster had the resources been available and the organisational commitment been made sooner. Summarised succinctly by the Chief Executive; *"sure, we needed to be careful, but we could have moved a lot faster"*.
- Plans for Procurement Outsourcing: The utilities organisation intend to continue execution of their procurement strategy which includes fewer vendors with longer term contracts and stronger relationships. Risk of impact on core business activities and uncertainty of market capability are

key concerns. While acknowledging some potential for more outsourcing of procurement they do not expect a significant increase in the next few years.

6.2.2. Tourism & Freight (T&F)

A large publicly listed company, operating in a highly competitive market with high capital and overhead costs, this organisation has a clear strategy to outsource a wide range of business activities.

A General Manager was interviewed who has overall responsibility for procurement. She provided insights into the senior management of the organisation with links to procurement strategies and practices. Additional documentation including annual report and the strategic plan were also analysed.

– Procurement & Outsourcing As Essential Part Of Business Structure.

The Procurement Group features prominently in the organisational structure of the T&F organisation; it is well resourced and highly regarded for delivering cost savings and business improvements. The senior procurement officer's title is General Manager Group Procurement, reporting to the CFO who reports to the CEO and is considered a member of the senior management team.

Procurement and outsourcing are considered enablers to increase the competitiveness and profitability of the company according to the General Manager Group Procurement;

“Absolutely, we look very closely at these, the question is really make – or not make ? Do ourselves or buy in? The question we ask is does the function add value ? Could it add more value if done by somebody else, quicker, cheaper etc, and once we have gone through those questions we look at – if we were to outsource, what is the right way of going about it”?

This quote shows how outsourcing is considered as a business tool with focus split between an initial question of whether to outsource followed by the secondary consideration of how best to outsource.

- Business Process Focus. The Procurement Group of the T&F organisation is usually involved at the initiation stage of change projects; they prefer to have input to the design of business processes as this helps them identify benefits beyond spend leverage, exploring the potential for greater business alignments with vendors. According to the respondent, process improvement is a key procurement responsibility as shown in the following quote;

“We recently reduced a project procurement cost by 50% just by asking if the design could be changed to be more efficient to make. Not just running the procurement process, the challenge is making sure we ask the right questions. Often when you have beaten up the suppliers and the prices are rock bottom, you need to look at next generation procurement processes.

Procurement is business improvement, especially in large complex organisations; it’s the fun part of our job”.

- Outsourcing As A Means Of Fixing Business Problems. Describing the need to resist offloading business problems via outsourcing, they maintain that before an outsourcing decision can be taken the business activity must be clearly understood and existing problems addressed. The respondent suggested that a failure to do this may simply shift the problem to the outsource provider and set them up to fail.

“We believe you cannot outsource something that is a mess, you need to sort it out first so you know whether you are getting a benefit or not. Fix it first, make sure its right, then say, can they do it better, leaner, meaner whatever?”

- However, they acknowledge that it is not always possible to fix problems before outsourcing, but that careful business process analysis is still important so that the outsource provider understands the changes required and is an active partner in this analysis. They see outsourcing as an option to facilitate transformational changes in their organisation especially where entrenched and inflexible processes exist. This quote from the General

Manager Group Procurement illustrates their willingness to use outsourcing to facilitate change and to work with providers to make improvement to business processes.

“Creating change can be easier to take out of the organisation than to change behaviours and attitudes internally. – and then determine the specific KPI’s and work out how to do it best, so you don’t bring the baggage with you”.

- Creation of Market. When evaluating outsourcing opportunities they have identified gaps in the market which raise concerns about the capability to deliver required outsourcing service effectively. In a number of cases they have sourced providers from overseas but have also consciously developed providers within New Zealand and the Pacific region to provide outsource services. According to the respondent this illustrates the link between business and win-win procurement strategies, *“found parties who needed us as much as we needed them”.*
- Distinction With Outsourcing Of Procurement Activities. Because of perceived increase in business risk it is unlikely that they will seriously consider outsourcing key procurement activities. However, use of external experts in specific categories where a lack of market knowledge exists is common. They believe this approach is preferable as it allows them to gain procurement leverage while retaining control of the overall process in-house.
- Outsourcing Performance. A range of KPI’s are established for each outsource agreement with particular resources identified to manage the relationship. They believe that successful outsourcing relationships need to be well managed by dedicated resources as summarised in the following quote from the General Manager Group Procurement;
“Important to have a competent internal person looking after the relationship. I believe that outsourcing is not abdicating responsibility. Still have responsibility for managing the performance and allow resource within the organisation to ensure it performs”.

- Challenges. In a competitive environment with rising costs they find it extremely challenging to generate acceptable returns for the overall business investment, an ongoing procurement and business challenge is to keep driving costs down in the organisation. According to the General Manager Group Procurement, (and illustrated in the following quote), this involves wider acknowledgement of the value of linking procurement, outsourcing and business initiatives to deliver benefits as well as the leadership required to drive changes, *“Luckily we have an enlightened CEO who understands that we can’t save our way to prosperity and that we need to find new and innovative ways of doing business”*. These links between business and outsourcing are also highlighted in their strategic plan.
- 20:20 Hindsight. They would like to have made some major outsourcing decisions sooner, and moved faster as they can now see benefits. The respondent described how senior leadership had a significant influence on the pace of these changes;
 - “biggest reason we did not move faster was a reluctance to tackle the hard issues of impact on people from our former CEO. That’s why some outsourcing that is happening right now didn’t happen before. Now that we are prepared to make those hard calls we are making progress”*.

The CEO mentioned in this quote had left the company about six months before this interview and is no longer based in New Zealand.

- Plans for Procurement Outsourcing: Technology developments may accelerate and contribute to procurement’s role in further refining business process and reducing costs. Unlikely to consider outsourcing procurement projects because of the perceived complexity of internal business structures and processes, and the need to have strong internal relationships. *“Can’t see that sitting with an outsourcer. Strategic business activity needs to be closely aligned with procurement and driving cost down is closely aligned to this”*. This quote from the General Manager Group Procurement confirms their preference to keep control of procurement in-house.

6.2.3. Logistics, Distribution & Banking (LDB).

This organisation has a diverse range of business activities with branches, staff and customers spread throughout New Zealand. Described as a “*series of overlapping businesses*”, the procurement function is centralised within its corporate head office, with leveraging, governance and policy links to the subsidiary businesses. This enables procurement to influence across the entire organisation.

Whilst the businesses are complimentary, business structures and activities are complex. internal knowledge, relationships and influence are seen as critical to providing procurement and outsourcing services.

The National Procurement Manager was interviewed with additional information provided via questionnaire and through analysis of corporate documents.

- Procurement and the Organisational Structure. Procurement is headed by a National Procurement Manager who reports to the General Manager (Shared Services) who in turn reports to the CEO of the parent organisation. Some recent organisational changes have flattened the structure with procurement reporting moved from CFO (Finance) to GM Shared Services. They report that some teething problems persist but have seen benefits as procurement now has a wider influence.
- Centralising Procurement In A Large Diverse Group Of Businesses. The LDB organisation believe that leveraging consolidated procurement spend has helped constrain and even cut costs while increasing benefits as the organisation grows. They feel it is important to be fair to vendors as New Zealand is a small marketplace and it is necessary to have good relationships that are commercially sound, appropriate and fair to both parties; not a win/lose situation, as illustrated in the following quote from the National Procurement Manager; “*reflect result of a good commercial negotiation, soundly based, that we will pay people on time, but equally we have an expectation that suppliers will perform for what they are*

contracted'. Centralising procurement has enabled the organisation to ensure well engineered, channelled supply chain provides the goods & services that are needed at best value. *"We don't want business units trying to wheel and deal, we try to concentrate spend in this one team unless its very low value and the expertise exists in the group"*. This quote shows the commitment to retaining centralised control of procurement within the organisation.

- Outsourcing Synergies Within Subsidiary Businesses. When investigating outsourcing some business activities the LDB organisation described how an opportunity emerged to use another business within the group with expertise in outsource relationship management to provide support services to the wider organisation. Initially they looked at lower level ancillary type services such as, office supplies, internal mail, reception and travel services. They see potential in this concept to move into more complex and critical outsourcing categories as credibility and organisation expertise grows. Whilst this could be a potential win/win for the group, they have leveraged off and supported the capability to transfer accountabilities to the outsourcing business.

Apart from potential benefit of outsourcing services to other providers with more expertise and efficiency, the organisation has an added commercial opportunity to grow the subsidiary business into a credible outsource service provider. According to the National Procurement Manager in the following quote, they see benefits in developing this concept further but intend to progress it cautiously until confident of its ability to perform.

"This is likely to be a gradual process; this company also provides similar support to other corporates as well. Some quite small, some larger, we want to be their toughest customer which helps them learn from their experiences with us. It makes sense for us, I might have a vendor manager who looks after a lot of very small relationships, the idea is we move up the food chain and manage a single relationship with this organisation who I would hold accountable to deliver those functions against a Service Level Agreement".

- Outsourcing Services Evolving. Over the last two or three years the LDB organisation has identified opportunities to outsource where the market has been uncertain. In some cases they helped develop outsource providers by working with them and gradually developing the capabilities required. Emphasising that each opportunity needs to be carefully considered with development tailored to the specific service and maturity of the outsource market, in the following quote the National Procurement Manager describes their cautious approach to outsourcing changes; *“there are no absolutes, we gradually managed them into a different space or coached whatever, rather than just going whack we are going to do this and changing in one hit”*.
- Initiating Outsourcing Investigations. Typically procurement have not initiated investigation of outsourcing opportunities, however they have been very involved and are often the internal owners of the project. A shared approach is taken to evaluations with establishment of a formal project team within the LDB organisation incorporating a change management process and PSC (project steering committee). These projects often end up recommending something different from initial expectations, the respondent summed this up by saying; *“over time bits have fallen off, other bits have come in, so that it has subtly changed direction. In one case it has grown hugely and become difficult to manage”*.
- Management of Outsourcing Relationships. Service Level Agreements (SLA's), are used to clarify expectations of both parties, they include KPI's and regular performance meeting attended by key stakeholders. An internal Relationship Manager is appointed but some significant outsourcing arrangements have teams from both parties managing the performance and relationship. Procurement do not usually remain involved at this level but have influence and can be included as part of an escalation process if issues cannot be resolved. Committing time to these relationships is seen as important as is prioritised as illustrated by the following quote from the National Procurement Manager of the LDB organisation;

“I hold the very strong view that, because of the risk, outsourcing increases the amount of management time you have to put into the

relationship, if you don't it will fail. Why would they perform better than basic if you are not managing them? It is another supplier relationship and probably one of your more critical ones, depending the function outsourced”.

- Managing Performance. In addition to SLA's, the LDB organisation concentrate on measuring performance and are developing a wide range of higher level KPI's than traditional procurement agreements. *“Need to have mechanisms for gaining improvement with some sort of balanced scorecard to measure achievement of objectives”.* According to the respondent, outsourcing performance should be measured against a wide range of criteria, this view is being applied to current work on a joint venture with the subsidiary company now providing outsource services.
- Managing Outsourcing Costs. Aiming to incentivise providers without adding incremental costs, outsourcing providers charge management fees for their services rather than a margin on spend. *“They are paid a management fee, they are incentivised to help drive cost out, they are not incentivised to increase their margin”.* This quote from the respondent shows that their preferred costs management structure for outsourcing is designed into outsourcing relationships from the beginning and in their view emphasises focus on overall costs rather than the profit margin derived from the outsourcing function.
- Challenges. On ongoing challenge is achieving and retaining commitment to business process changes related to outsourcing activities. In such a large complex organisation they find it extremely difficult to ensure engagement with all impacted stakeholders. This has been a common problem, delaying the projects and frustrating the projects teams. It has also contributed to losing people from the project teams before completion. The following quote from the National Procurement Manager illustrates the challenge of managing change;

“Business units signing up to it but only giving it lip service, been a real struggle to influence to get them to agree to what they signed up to – to making a change! Perhaps they had other agendas. People who signed

up to it didn't necessarily communicate that well with their managers, so that later can claim to know nothing about it. Perhaps people who signed off were not at the right level, this highlighted a need to go back to the senior executive team. Have to go right around and resell the whole proposition from scratch and we are still doing some of that, which is very frustrating and very time consuming”.

- 20:20 Hindsight. Clearly linked to frustration of losing people during outsourcing projects, retaining people in the project team and not allowing them to take up other roles within the organisation until completion is a step they would like to have taken.

“It's been difficult to keep the continuity and a lot of relearning was necessary which has been frustrating. In terms of the other battle scars, I think they are worthy battle scars as they have helped improve all of us that have been involved, so even though you could say it has been a hell of a frustrating time its probably worth being frustrated because the outcome is much richer and greater than we imagined”.

In this quote the respondent highlights the frustration caused by loss of people and knowledge during outsourcing projects but somewhat philosophically acknowledges the beneficial learning which came from these frustrations.

- Plans for Procurement Outsourcing: The LBD organisation has no plans for outsourcing procurement but would not rule out this possibility at some future stage. While procurement has direct links to this organisation's strategic plans, outsourcing tends to come about in a more ad hoc way as summarised in the following quote from the respondent;

“lines are blurred between procurement / outsourcing / strategic development. Looking at leveraging other parts of the group where services can be delivered more effectively, which is a form of outsourcing. In some cases they will be a conduit to a total external party. Therefore using outsourcing as a procurement option and tool”.

6.2.4. Government Agency.

This organisation with over 2,000 employees and with branches throughout New Zealand has taken a cautious approach to procurement and outsourcing. The head of procurement reports to a National Manager who reports to the CFO who in turn reports to the CEO. Procurement and outsourcing are not mentioned in the organisation's strategic plan. Like all government agencies their procurement officers have additional responsibility to work within a range of government guidelines designed to deliver best value and provide fair market access to businesses based in New Zealand and selected trading partners such as Australia and Singapore.

The General Procurement Manager was interviewed with additional information provided via questionnaire and through analysis of corporate documents.

- Decisions to Retain Services In-house. Whilst this organisation does not have recent outsourcing experience, they have evaluated a number of business activities over the last two years and decided to keep these in-house rather than outsource. These evaluations came about as a result of reviews initiated by the business unit concerned and are not linked to strategic plans, they believe there were benefits in the evaluation of outsourcing as a business option during the reviews.

Spin-off from Outsourcing Evaluations. A recent review of this government agency's print supply identified several possibilities for improvement. By including outsourcing as an option it forced an examination of the print supply activities at higher more strategic levels and at the detailed business process level. The final decision to keep in house was influenced by the perceived risk that outsourcing could bring to the business, the importance of organisational knowledge and the desire to retain in-house expertise. This following from the General Procurement Manager illustrates the cautious view taken when considering outsourcing.

"What risks do we buy into by outsourcing? And latent risks such as; What happens in 3 years time? What have we bought into and how

*dependant will we be? Are we going to be able to change suppliers?
Can they jack up the price”?*

- Control Matters. As a government agency there is clear concern with the need to comply with government procurement guidelines. While currently outsourcing some procurement activities and willing to theoretically consider outsourcing others, retaining control to ensure compliance to guidelines is seen as critical. They have developed a model that allows vendors to be consolidated under a smaller number of outsource service providers but the procurement process is still controlled by them. In the following quote the respondent provides an example of an outsource service but still allows control of the procurement process to be retained in-house; *“in order to gain control it’s got to be centralised, for example, we don’t want to be experts in travel and we don’t want to employ experts in travel, so outsourcing seems sensible”*.

- Relationship and Contract Perspective. While acknowledging the need for formal agreements with outsource providers and the movement towards a partnering or joint venture approach over traditional supplier contacts, their experience shows that effective customer/supplier relationships are more important than binding contracts.

“The difference is illusory, a lot comes down to how people operate in the relationship, I’ve seen situations where the underlying contract is clearly a customer/supplier arrangement but when you look at how they behave they are not even that, for example the supplier treats you like shit certainly not like a customer and I’ve seen others where it is exactly the same contract but people work together very carefully as in a partnership, with a real cooperative approach. We are also not into beating up the supplier, extracting everything we can from them, we are far more cooperative than that and far more willing to look at sharing cost benefits etc, however our contracts don’t reflect that”.

This quote from the respondent illustrates the importance placed on supplier relationships and the challenge of achieving consistent results across different contacts.

- Challenges. Ensuring the roles of the supplier and supply arrangement is understood by internal customers. Where the supply arrangement has diverse customers throughout the organisation, getting their buy-in is seen as difficult and critical.

20:20 Hindsight. Wider organisational involvement in outsource / in-house decision making, developing clarity about the current activities and the expectations of key stakeholders in both parties. This quote from the General Procurement Manager highlights the importance of careful analysis before taking outsourcing decisions and the difficulty in clarifying expectation across a range of internal stakeholders.

“There is a need to unravel before making an outsource decision, being very clear about what is expected before buying into it. That is quite a challenge because you don’t tend to outsource what you do well, so almost by definition you decide to outsource because you’re not doing it well. Either you can’t do it well because it’s incompatible with what you are trying to achieve or you just don’t happen to be very good at it at the time, but either way you are not in a very good position to define well what it is you may be expecting, - and so it almost sets you up for failure”.

- Plans for Procurement Outsourcing: Unlikely to address this strategically, more likely to be considered on an ad hoc basis. The perceived risk of non-compliance to government procurement guidelines would be a barrier, they also believe that government agencies could be less likely to actively seek outsourcing opportunities because of the possibility of related redundancies.

6.2.5. Tertiary Educational Institution (TEI)

Describing their business activities as “*everything that goes into teaching*” this tertiary educational institute employs over 1,000 staff and caters for

approximately 10,000 students. With an annual procurement spend of over \$40 million they have until recently operated a decentralised business model with business units responsible for their own procurement. As the organisation has grown they have identified opportunities for reducing costs by consolidating buying power, reducing the number of vendors used and standardising buying processes. They are now in the process on appointing their first organisational procurement manager, this position will report to the Vice President Finance who reports to the Deputy President Corporate Services who in turn reports to the CEO.

The Vice President Finance was interviewed with additional information provided via questionnaire and through analysis of corporate documents.

- Importance of Personalities in Outsource Relationships. The TEI considered that the outsourcing arrangement of the campus recreation centre was successful for over 8 years, however problems became evident when the outsource provider key contact and relationship manager changed. Several HR issues became apparent and were not dealt with effectively, after some frustration a decision was taken to change the outsource provider. They also acknowledged that formal performance procedures were not in place which may have contributed to the uncertainty of expectations and inability to resolve issues.
- Staff Tendering for Outsourcing. When the performance of the bookshop was reviewed, outsourcing this activity was considered and existing staff were given the opportunity to make proposals. The bookshop was outsourced to a staff member with an external partner, they consider that this arrangement has been adequate, but has not progressed or developed as much as was hoped. Again they acknowledge that this dissatisfaction may also relate to the fact that a formal outsource performance management process was not put in place until very recently.
- Senior Management Philosophy Influence on Outsourcing & Procurement. At the time the bookshop was reviewed several other business activities were also considered for outsourcing. This also corresponded with a change in CEO and a drive to improve the commercial activities and profitability of

the organisation. Whilst outsourcing was not stated as part of the recorded business plan, it appears this strategy was promoted widely by senior management; as a result some activities were outsourced and some retained in-house where the business risk was perceived to be high. The following quote from the respondent summarises how the decision to outsource catering was taken;

“Small number of people involved, senior executive decision, put up a paper to the board, based on proposed saving and in some cases it was very compelling. e.g. with catering, it meant instead of running internally for a small profit, another company paid us to allow them to run it and took away the headaches”.

- Importance of Visible Senior Management Support. The recently appointed CEO has confirmed his support for centralising procurement within the TEI and using outsourcing as a business tool. Executives believe it will take some time for the organisation, which has a decentralised culture, to accept changes and loss of control over what was until recently considered their business. A project was initiated to manage these changes with sign-off for the project plan from the senior management team.

In contrast to the CEO's support for organisation's procurement changes, some of his actions are perceived to undermine procurement and outsourcing, e.g. rather than using the contracted outsource provider he will often book his own travel as he perceives that he can get better deals by using the internet himself, and he encourages others to do likewise.

- Challenges. They consider organisational compliance to be the most significant challenge to procurement changes. The following quote from the TEI Vice President Finance illustrates the focus on change management, and the work underway to target non-compliant parts of the organisation;

“To get people to stick to decision made, change management, academics are like herding cats. Now leakage reports shows nonconformists and allows please explain questions to be asked”.

“Going forward a massive culture change is still required”.

- 20 : 20 Hindsight. The respondent emphasised the importance of ensuring buy in from senior executives, in addition to good communication and focus on change management.
- Plans for Procurement Outsourcing: No plans in this area however new procurement manager will have opportunity to influence future plans. Initial procurement focus will be on leveraging buying power and centralising processes. In the following quote the respondent summarises the perceived opportunity to gain benefits by applying procurement practices consistently and their scepticism about additional investment in electronic purchasing tools;

“Cost versus benefit may have been oversold from eProcurement, lots to be gained from refining process and consolidating suppliers. Lot of benefits from good relationships with people who understand TCO (Total Cost of Ownership), principles and not just cost plus mentality”.

6.2.6. Banking, Finance & Insurance (BFI)

This organisation includes five companies focused on providing a range of financial services in all parts of New Zealand.

The Head of Procurement was interviewed with additional information provided through analysis of corporate documents. Whilst the BFI respondent has been with the organisation for only six months he believes his views should be insightful as he tries to take an objective approach to learning about the organisation and is involved at a senior level in many business decisions. His impressions are that they take pride in doing things differently and encourage innovation throughout the organisation. They prioritise customer service and the wellbeing of their employees.

The centralised procurement group is seen as providing an important cross business unit function. The Head of Group Procurement, reports to Head of Group Finance who in turn reports to the CEO

- Cultural Concerns with Outsourcing. Accepting that there may be valid business reasons for outsourcing some business activities, the BFI

organisation are very conscious of how outsourcing may affect the loyalty of staff and customers, and the overall culture of the organisation. *“It would be difficult to communicate why we outsource in relation to everything else we do, because we need that flexibility and we need to be in control”*. According to the respondent they have concerns with outsourcing reducing business flexibility and with justifying outsourcing decisions to staff and customers.

- Strategic Links With Procurement and Outsourcing. A recently completed procurement strategy includes outsourcing but only in selected areas. They are very concerned with keeping control and choosing activities to outsource that fit with the organisation culture as illustrated by the respondent’s quote;

“For us, outsourcing has a lot to do with the philosophy of the company as a whole; some outsourcing might fit with the culture of some companies and might not fit with the philosophy of others”.

“This organisation is about people, culture is very very important”.

A final decision on outsourcing printing was made recently at senior management board level; the projected cost / benefit was favourable but when other factors such as risk, culture and strategy alignment were considered the decision was made to keep this activity in-house

- Approach to Outsourcing Procurement. While the BFI organisation prefer to keep control of procurement in-house they recognise they occasionally need to engage consultants to provide expertise in some areas, usually on a project by project basis. *“You could say we outsource the expertise but not the risk or the control”*.
- Decision Making Methodology. Outsourcing evaluations are usually carried out by a project team and a standard methodology developed in-house is followed. This involves business process mapping, analysis and business case development with transparent recommendations which goes to the senior management board for discussion and sign-off. The BFI respondent considers the process to be robust and transparent.

- Management of Outsourcing Arrangements. Acknowledging the need to manage outsourcing arrangement and relationships well they also admit to performing poorly in this area. The following quote from the Head of Procurement highlights their view that good management of outsourcing is extremely important; *“unless you have a structural way of measuring the relationship you cannot be sure you are getting the benefits expected. The mechanism to manage is becoming crucially important”*.
- Challenges. Challenges include ensuring quality and speed of service, and also the cost and effort required to manage the relationship.
- 20 : 20 Hindsight. Ensure outsourcing evaluation projects are adequately resourced and develop better relationship management mechanisms once decisions are taken to outsource.
- Plans for Procurement Outsourcing: As part of their procurement strategy, the BFI organisation plan to centralise outstanding outsourcing arrangements and develop more sophisticated management procedures. Unlikely to outsource procurement beyond practice of consultancy engagement because of risk and control concerns. Also not sure about the market and how procurement outsourcing provider could be effective without intimate knowledge of organisational complexity.

6.2.7. Electricity Generation, Trading & Retailing (EGTR).

The EGTR is organisation is unusual in that it explicitly mentions outsourcing in their strategic plan. Among New Zealand’s largest companies in terms of turnover, they have a relatively small workforce, (less than 400), and utilise outsourcing extensively. They consider themselves to be an innovative and flexible organisation and value business agility as an important point of difference to their competitors.

The Procurement Manager was interviewed with additional information provided via questionnaire and through analysis of a tailored outsourcing model and other corporate documents.

- Flat Organisational Structure. The Procurement Manager is a third tier management role however it also reports to a third tier manager who reports to the CFO. The EGTR organisation maintain a flat structure as they believe it can be more flexible. Procurement is viewed as an enterprise wide function, centralised from a corporate policy/governance perspective with some decentralised activities.

“We have pockets of procurement excellence, within other directorates but the procurement group provide the policy / governance structure, you could use the term, - centrally enabled and decentrally executed.

Procurement is everybody’s business, much like HR is”.

The respondent’s quote above shows the cross organisational influence of the procurement group.

- Unsuccessful Outsourcing Procurement Experience. In 2000 they decided to outsource most of their procurement activities, but within two years brought these activities back in-house and rebuilt their procurement team. As they were already outsourcing significant parts of the business, e.g. IT infrastructure & support, Data / Communications, Asset Generation & Maintenance, most of the procurement activity related to these areas was therefore not available to the procurement outsourcer. It became apparent that the procurement activity available was not a viable outsourcing proposition and as the provider’s enthusiasm waned, the quality of service declined, eventually the decision was made to take back in-house as summarised in the following quote from the respondent.

“In terms of procurement services, given that a lot of the sexy stuff, the stuff that had the greatest amount of volume and value transaction was already outsourced, it therefore wasn’t really sustainable, so we brought it back in”.

- Outsourcing Decision Making Toolkit. With input from external experts they have developed their own outsourcing decision support framework; this is

now used in all outsourcing evaluations. Recommendations go to the senior management board where final decisions are made.

- Multi-tiered Outsourcing Relationship Management. With several contact points in both organisations, outsourcing relationships are managed carefully to provide strategic and operational links. The following respondent's quote shows the attention paid to developing appropriate relationship management structures tailored to each outsourcing arrangement.

"Usually a team, but is horses for courses depending on the scope and breath of the relationship and the function being outsourced, but is multi tiered in character. This is essential, agreements would struggle without the multi tiered approach".

- Challenges. Challenges include complacency in the relationship, and continuing to demonstrate added value. They also consider industry skills shortages to be a challenge to successful outsourcing.
- 20 : 20 Hindsight. They acknowledge the need for more careful analysis from all stakeholders before the procurement outsourcing decision was taken. This may have contributed to unrealistic expectations on the part of the outsource procurement provider.
- Plans for Procurement Outsourcing: The following quote from the Procurement Manager confirms their intention to use outsourcing as a strategic business tool.

"Outsourcing is a key component in our toolkit to help maintain competitive advantage. We will continue to review current performance and challenge status quo".

However they do not intend to revisit outsourcing procurement in the foreseeable future. They will consider opportunities for other business process outsourcing and seek improvement in current outsourcing and business performance.

4.3. Summary table from participant interview and document analysis

The following table summarises participant’s views on contributors to successful outsourcing, it also includes reflections on what has worked well in their experience.

Table 5. Summary of Outsourcing Success Data from Survey.

<i>Industry Sector</i>	<i>Factor respondents believe influence success of an outsourcing arrangement</i>	<i>What has worked well?</i>
Utilities	<ol style="list-style-type: none"> 1. Be very clear about objectives, what, why, - and what we want to achieve. 2. Success is defined by the relationships that you develop. Two way with client and provider, equal buy-in. 3. Confidence that the industry is able to deliver these objectives, is it ready or capable ? 	<ol style="list-style-type: none"> 1. Getting down to few providers and developing stronger relationships. Easier to share vision & get commitment. 2. Panel of providers where comparing apples for apples. 3. Ability to align goals with providers at higher level.
Tourism & Freight	<ol style="list-style-type: none"> 1. Buy in from the very top. 2. Really understand your business and make sure you are not outsourcing a problem. Fix problems first and then outsource – otherwise can’t gauge the outsource benefits. 3. Do your market analysis very well, understand what is out there and share beyond the procurement people as this often takes a bit of educating within the business. 4. Understand what sort of relationship you will need and make sure the selected “partner” is not just right on cost but also on the relationship and the kind of organisation you want to work with; eg if they need a close partnership and you don’t want to give a partnership, then its not going to work. 	<ol style="list-style-type: none"> 1. Careful market research, found supplier who needed us as much as we needed them, so there was a balance of power, if that’s the wrong way around it’s very difficult to work something like that out. 2. Party was prepared to set up in an area where they hadn’t worked before geographically, looked at this globally. 3. We had the people to provide the training and control the quality to begin with and the new provider also had experience in this business process.

Logistics, Distribution & Banking	<ol style="list-style-type: none"> 1. Good people, be prepared to resource the project properly, or don't do it, 2. Do a business case, get SMT buy in, or don't do it, 3. Be prepared to stick at it but also be prepared to give it away - if it's a 'dog'. 	<ol style="list-style-type: none"> 1. Actual service is being delivered. Core services have worked. 2. Valuable learning exercise. <i>Made us think about ourselves, made us tougher and helped us grow a bunch of new relationships across the group</i>.
Government Agency	<ol style="list-style-type: none"> 1. A cooperative relationship. 2. Clear expectations 3. Wide organisational involvement 	<ol style="list-style-type: none"> 1. Buying in expertise as required. 2. Helping enforce policy that might be difficult to enforce internally.
Tertiary Educational Institution.	<ol style="list-style-type: none"> 1. Good relationship with provider. At senior and operational levels. 2. Have to remain competitive, and save costs. 3. Initiative / innovation and with plans for the future. 	<ol style="list-style-type: none"> 1. Early wins using expert consultant helped gain credibility & support. 2. People from across the organisation now talking more, <i>"procurement is a big education process, an untapped treasure really"</i>.
Banking, Finance & Insurance	<ol style="list-style-type: none"> 1. Ensure crystal clear understanding of expectations in relationship. 2. Ensure open management relationship. <i>"There should be a lot of flexibility to respond to rapid changes in the world, transparent, open and documented"</i>. 	<ol style="list-style-type: none"> 1. Cost avoidance of people 2. Hassle of managing staff.
Electricity Generation, Trading & Retailing	<ol style="list-style-type: none"> 1. Multi-tiered relationship management 2. Service Level Agreements with KPI's 3. Dedicated contract managers on both sides 4. Formal & informal meetings 	<ol style="list-style-type: none"> 1. More flexibility 2. Access to top expertise 3. Improved performance

The following table summarises key outsourcing drivers and participants plans for procurement outsourcing in the future.

Table 6. Summary of Surveyed Outsourcing Drivers and Plans.

Sector	Respondents Key Outsourcing Drivers	Plans for Procurement Outsourcing
Utilities	<ol style="list-style-type: none"> 1. Desire to lift customer service to the next level, ie moving from average/good to very good. “Effectiveness” as defined by customer outcomes, they (provider) could do it better than way it was presently being done. 2. The efficiency reason, get better value for money. 	<ul style="list-style-type: none"> • None. Planning to complete and implement their procurement strategy. Cautious about potential for effective outsourcing of procurement in New Zealand.
Tourism & Freight	<ol style="list-style-type: none"> 1. Cost saving. 2. Efficiency – can be different as cheaper does not necessarily mean efficient. 3. Creating change is easier to take outside the organisation than to change behaviours and attitudes internally. 	<ul style="list-style-type: none"> • None currently. Unlikely to consider outsourcing procurement because of the perceived complexity of internal business structures and processes, and preference to keep control in-house.
Logistics, Distribution & Banking	<ol style="list-style-type: none"> 1. Cost Benefits. 2. Synergy existed with core function of subsidiary business units provided added incentive. 3. Seen to improve effectiveness for the group. 4. Getting in expertise, not just saving money, but improving the delivery of the service. 	<ul style="list-style-type: none"> • None currently. However they are evaluating an opportunity to outsource business process which could include some procurement within their group of companies. They see outsourcing as a procurement option and tool may investigate procurement outsourcing in the future as their confidence grows and the market capacity develops.
Government Agency	<ol style="list-style-type: none"> 1. Cost saving 2. Getting more expert company to deliver service more effectively. 	<ul style="list-style-type: none"> • None. More likely to be considered on an ad hoc basis. The perceived risk of non-compliance to government procurement guidelines is an immediate barrier.
Tertiary Educational Institution.	<ol style="list-style-type: none"> 1. Release capital funds tied up in inventory. 2. Rental of space, created income. 3. Getting rid of a problem. <i>“Someone else to worry about the business aspects and the hassle of working with the students to make their own profits”</i>. 4. Less staff to manage 	<ul style="list-style-type: none"> • None. However new procurement manager will have opportunity to influence strategic plans of the organisation which could include increased outsourcing. Procurement outsourcing is unlikely to be supported at senior management level because of their preference to build in-house capability to manage business complexities.
Banking, Finance & Insurance	<ol style="list-style-type: none"> 1. Best Cost to deliver the service required. 2. Align with strategy and organisational culture. 	<ul style="list-style-type: none"> • None. They plan to refine their procurement strategy which will include centralising outsourcing arrangements and developing more sophisticated management procedures. Unlikely to outsource procurement beyond practice of consultancy engagement because of risk and control concerns.
Electricity Generation, Trading & Retailing	<ol style="list-style-type: none"> 1. Efficiency / effectiveness 2. Leverage business excellence and expertise 3. Maintain flexibility and agility 4. Access to intellectual property 	<ul style="list-style-type: none"> • None. Having tried outsourcing procurement and returned to in-house they have no plans to revisit outsourcing procurement in the foreseeable future.

5. Discussion Themes

Outline: In this section common themes evident in research and literature are identified and discussed. Whilst quotes from literature are referenced, those from research participants are included without precise referencing to protect confidentiality.

Themes are developed for key issues and opportunities and a model is proposed to support New Zealand organisations contemplating outsourcing procurement.



The 'arrow' bullet symbol has been used in this section to show where the research has led to specific conclusions or subsequent recommendations. All these bullets are summarised in section 7.2 Concluding Recommendations, they are included here to provide logical extension of the discussion themes and issues.

5.1. Evolving Outsourcing Business Drivers for Research Participants .

Clearly reducing costs and gaining efficiencies are key outsourcing drivers for the seven organisations that participated in this research. Additionally outsourcing can raise expectations of improved access to expertise and organisational flexibility, and increased business focus and effectiveness. Whilst some organisations are satisfied with the success of outsourcing experiences, most acknowledge the significant time and effort required to ensure these arrangements and relationships are carefully managed. In New Zealand's tight labour market with unemployment levels close to 3% (Statistics New Zealand, 2007) outsourcing is starting to emerge as a strategy to deliver critical business activities without developing in-house capability and capacity. This is particularly evident when technical expertise is required and an outsource provider is a specialist in this area.

Whilst reducing cost is often the key driver for considering outsourcing; organisations are starting to take a more mature perspective involving consideration of how outsourcing can help advance overall business

performance by creating strategic links to core business activities. Whilst strategic links were mentioned in most interviews, it is interesting that only two of the organisations studied mention outsourcing in documented strategic plans.

↗ Organisations should include consideration of potential benefits of incorporating outsourcing strategies during long term planning cycles.

5.2. Alignment of Strategy to Outsourcing and Procurement.

In considering the links between outsourcing and organisational strategy it is apparent that some organisations see outsourcing as a procurement tool and that even in organisations where the procurement team do not lead or initiate outsourcing projects, procurement staff often take a significant role in evaluation of in-house versus outsourcing options and in subsequent contract and relationship management. Evidence from this study suggests that status of procurement in New Zealand organisations has increased from when it was considered a purchasing support function, often reporting at lower levels to operations or finance. Six of the seven organisations surveyed acknowledged the strategic importance of effective procurement to overall business performance, reflected by more senior procurement placements within management structures. There is also broader understanding and acceptance of the value proposition of procurement by senior executives; this is similar to international developments with procurement increasingly represented at board level in multi-national corporations, e.g.

- Airbus Vice President Procurement
- Hewlett Packard Director Global Procurement
- Merck Procurement Director
- Pirelli Chief Procurement Officer (CPO)

Whilst acknowledging that the status of procurement appears to be growing in New Zealand, only one organisation studied operated with a board level procurement executive, most senior procurement officers operate at third and fourth management tier levels. It is not surprising that procurement strategies which could include outsourcing are less likely to gain traction at board level. This separation between procurement and business strategy development may

contribute to the ad hoc identification of many outsourcing evaluations; four of the procurement officers interviewed mentioned the responsive nature of procurement particularly in terms of outsourcing involvement. This responsiveness suggests that radical changes to procurement involving e.g. outsourcing, are unlikely to emerge from strategy development within procurement.



More could be done to articulate the value proposition of procurement in New Zealand organisations. Senior executives should improve their understanding of procurement relevance and procurement officers should emphasise strategic procurement value while simplifying tendering and purchasing processes which are sometimes seen as narrowly focused and overly bureaucratic. This should include promotion in terms of strategy development and management structure representation and help identify future outsourcing possibilities. It may also help avoid potential conflict of interests in outsourcing situations when business functions which could be potentially impacted are responsible for initiation and investigation of outsourcing evaluations.

5.3. Evolving Role of Procurement.

Procurement activities can range from the identification of a need for a product or service to payment and everything in between. The following activities were identified among procurement functions within the seven organisations studied;

Table 7. Business Procurement Activities.

<ul style="list-style-type: none"> • Category management • Expenditure analysis • Strategic sourcing • Management of procurement projects • Supplier market research 	<ul style="list-style-type: none"> • Cost analysis • Transaction management • Supplier relationship management • Placing & monitoring purchase orders • Managing inventory
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<ul style="list-style-type: none"> • Supplier qualification & selection • Supplier e-enablement • Request for proposal management • Bid preparation & management (including Web-based auctions) 	<ul style="list-style-type: none"> • Payment of accounts • Contract management • Operational compliance • Business process improvement • Sustainable procurement expertise
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Most of these activities involve the sourcing and management of vendors, however several of the organisations studied reported increasing procurement involvement in business processes not traditionally linked to procurement. Examples include seeking supply chain efficiency gains when the relationship and interactions between the vendor and organisation’s key contacts are complex and not well understood.

Whilst this type of involvement may cause some blurring of the lines around procurement responsibilities it also recognises the importance of procurement officers working across business functions as facilitators of business improvement changes involving both internal and external stakeholders. Because extensive organisation knowledge is essential when brokering and implementing business changes, procurement is seen as a much better option than bringing in external experts who may struggle to be effective without knowledge of internal organisational processes, politics and personalities.

*“Often when you have beaten up the suppliers and the prices are rock bottom, you need to look at next generation procurement processes”.
Procurement is business improvement, especially in large complex organisations; it’s the fun part of our job”.*

This quote from the General Manager Group Procurement of one of the organisations studied, confirmed their use of procurement to drive business process improvements.



When a business process improvement role is taken by procurement there are often problems associated with process

commitment and buy in to changes from throughout the organisation, even though this role may be valued at a senior level. It is important to clarify and confirm the mandate for these involvements, as well as the interdependencies with other activities and commitment from key internal stakeholders at the initiation of each project.

5.4. Outsourcing, Emerging Principles.

“You cannot outsource a mess, you need to sort it out first. Fix it first, make sure its right, then say, can they do it better, leaner, meaner?” This quote from one participant was echoed by several others studied and acknowledges the importance of understanding business processes and attending to problems before outsourcing.

Whilst not often cited as a key driver for outsourcing, getting rid of a problem or poorly performing part of an organisation is typically included in wider consideration of outsourcing benefits. However, without first understanding how business processes combine to support essential activities, it is difficult to make informed outsourcing versus in-house comparisons and even more difficult to establish win-win outsourcing arrangements (Davenport, 2005). Several of the organisations studied acknowledge the need to analyse and improve business processes before entering into outsourcing arrangements. However all mentioned the subsequent high level of management time required to manage outsourcing arrangements. This came as a surprise to some and is consistently cited among key outsourcing challenges when combined with unrealistic service expectations and difficulty in measurement of success in New Zealand and overseas (Fan, 2000; Hayward & McDonagh, 2000).

Business change projects often strike similar initiating problems where objectives are ambiguous and expectation of various stakeholders can be very different (Obeng, 1994). It is important to take time to develop understanding of business processes being considered for outsourcing so that the scope and project expectations can be clarified. This may need to be an iterative process involving revisiting of expectations as knowledge of business processes and outsourcing options are developed.

5.5. Selection of Activities to Outsource

The literature shows that outsourcing decisions are made at board level in most organisations (Farney et al., 2004; Gay & Essinger, 2000; Tornbohm, 2005), which is consistent with the findings from the seven participants in this research. However it appears that initial decisions to investigate business activities for outsourcing potential often predetermine the fate of these activities. There are several examples from the organisations studied that suggest higher level decisions on business specialisation, culture and strategy influence outsourcing investigations and ultimate outcomes. This seems incongruous with earlier findings that outsourcing and procurement are often not mentioned in strategic planning documents, however it appears that the senior leadership, culture and objectives of the organisation implicitly effect its focus and ambition with outsourcing as a business strategy, examples include;

- Focus on Core versus Non Core. The term core business is used frequently to describe functions of an organisation which are most important to its uniqueness, or its essential activities. Other activities which support essential business functions can therefore be considered non-core. Because non-core activities can theoretically be provided by another company, they are often identified as possibilities for outsourcing. Several organisations focused on outsourcing of non-core activities as summarised in the following quote from the Chief Executive of one organisation studied; *“function was not seen as a value add, have to do it but not adding value to customer. We want to differentiate from competitors”*. However the organisations with most significant outsourcing activity explained that their view of core business had changed as outsourcing options have been developed and their business had changed.
- Senior Management Influence. There appears to be a strong correlation between the senior management philosophy, the culture of the organisation and the focus on outsourcing and procurement as business strategies.

Three interview responses of particular interest follow and emphasise the influence senior management have on outsourcing and procurement;

1. *“A reluctance to tackle hard issues of impacts on people from former CEO. That’s why some outsourcing that is happening right now didn’t happen before. Now that we are prepared to make those hard calls we are making progress”.*
2. *“Since new boss came on, he is more supportive of these changes, giving senior and strategic support to these”.*
3. *“Recently looked at outsourcing printing but decided not to in order to keep control. Suits our philosophy better. Not just about cost, also ensure structure is in place to give flexibility and having functions under own control makes this easier. Culture is very very important”.*



Without alignment of organisational culture, senior management philosophy and core business activities, outsourcing evaluations and subsequent contracts are unlikely to succeed. As scope and expectations of outsourcing investigations are clarified, formal commitment to the project objectives and process should be obtained from senior management and key organisational stakeholders.

5.6. Procurement Outsourcing in Practice.

This research has shown close links between procurement and outsourcing with low levels of activity and awareness of outsourcing procurement activities in New Zealand. However many of those studied reporting “buying in” expertise for specific procurement projects when needed, which could be described as a low level of procurement outsourcing. When asked about views on outsourcing procurement most were concerned about the perceived risk and viability where organisational knowledge was seen as critical, a range of views were offered including;

1. Risks.

- *“Risk of customer impact if services are not delivered because of the need for strategic and organisational knowledge”.*
- *“Loss of control and capability”.*
- *“It would be difficult to communicate why we outsource in relation to everything else we do. This company is about people and there is potential conflict between commercial reality and looking after people”.*
- *“What risks have we bought into by outsourcing. – i.e. what happens in three years time, how dependant will we be - are we going to be able to change suppliers - can they jack up the price”*
- *“When you outsource you still have to be a smart buyer. My nervousness if passing on responsibility of being a smart buyer”.*

2. Lack of understanding. The role of procurement is often not fully appreciated and is frequently thought of as a purchasing service that supports business activity. This apparent lack of understanding contributes to problems with adherence to supply contracts and the development of the relationships between the organisation and the outsourcer. As one respondent put it;

“There is need for basic understanding of the role of the supplier and the supply arrangement amongst all the internal customers. Where the supply arrangements have diverse customers throughout the organisation, having their buy in (eg customers may complain about something related to a service but when you dig deeper it is because they don't fully understand the supply arrangement). More broadly, I would say that outsourcing too much and losing control of some of the fundamentals is a major challenge. – This probably comes from not understanding all the requirements before deciding to outsource”.

3. Cautious Procurement Outsourcing Intentions. The market for procurement outsourcing is growing internationally with more companies

offering a wider range of procurement services. Tornbohm (2005) describes two type of procurement outsourcing services:

- a. Provision of transaction processes providing administration of “procure-to-pay cycle” for goods and services.
- b. Aggregation of procurement expenditure to gain buying power advantages, (e.g. an international company considering its global needs on a category by category basis).

Some growth in outsourcing procurement is becoming evident in New Zealand (Hayward & McDonagh, 2000). However this research found a very cautious approach to the investigation of, and movement towards, outsourcing procurement activities. Even those with some procurement outsourcing experience were not confident of the market capability to mitigate perceived risks of lack of internal business complexity knowledge and management of critical relationships.

Interest in outsourcing procurement services is mainly where technical expertise or resource capacity is not available in house, or where an outsource provider can manage a number of smaller vendors on an organisation’s behalf. In these scenarios control is usually retained in house with the outsource provider ensuring contractual links to each vendor and a parallel contract with the outsourcing provider. According to the Chief Executive of a Utilities company studied, the preference to reduce the number of suppliers and simplify non critical parts of the business are reason enough for considering outsourcing, as summarised in the following quote;

“This model can apply in several areas, e.g. maintenance on buildings, we don’t link to a lot of tradesmen, we are currently tendering for a supplier to provide maintenance for all buildings so essentially the provider will have to have links to tradesmen in all regions to service our buildings, so effectively the procurement of those tradesmen is outsourced to the provider. When you can limit the large number of supplier it seems to me to make good sense”.

One of the organisations studied in this research attempted to outsource the majority of their procurement function in 2001 but brought it back in house two years later. Considering themselves an innovative, agile company they continue to regard outsourcing as a “*key component in the toolkit, to help maintain competitive advantage*”. The company outsourced procurement to a large consultancy with international experience in procurement outsourcing, with particular emphasis on category management, however because they were already outsourcing significant parts of the business, e.g. IT infrastructure & support, data management, communications, asset generation & maintenance, the smaller spends areas e.g. travel, legal services etc., available to the procurement outsource provider didn't make a very attractive proposition and the arrangement failed in a relatively short time, with both parties unhappy as illustrated in the following quote from the Procurement Manager; “*In terms of procurement services given that a lot of the sexy stuff, the stuff that had the greatest amount of volume and value transaction was already outsourced, it therefore wasn't really sustainable*”.



As illustrated in this example, outsourcing business processes will impact procurement activities of organisations whether retained in house or considered for outsourcing. A model to guide procurement outsourcing evaluations should therefore include identification and analysis of existing and planned outsourcing categories.

5.7. Laissez faire approach to Outsourcing.

Outsourcing decision are seen as major business decisions and are typically made at board level, it seems somewhat surprising that investigations and evaluations that precede decisions are often not rigorous. A study of 25 international companies sponsored by Deloitte (Landis, Misra & Porrello, 2005) found that 48% did not use models to guide outsourcing decisions. This study focused on large companies with a combined market capitalisation of \$US 1 trillion, they employ approximately 1 million workers and spend over US\$50 billion annually on outsourcing.

Of the seven organisations studied in this research two used a model for outsourcing evaluations. While others used variations of business case and costs-benefit analysis templates, these were not tailored to outsourcing projects. A model to guide New Zealand organisations considering outsourcing of procurement would need to be tailored to reflect the relatively small market size, the interdependencies between procurement and other outsourcing activity with flexibility to adapt to the particular organisational culture.

There are many outsourcing models available. Just as outsourcing covers many business activities, models focus on multiple categories, these include;

- industry sector, e.g. information technology, manufacturing, logistics.
- business activity, e.g. data warehousing, call centre operations.
- business process, e.g. accounts payable, travel management.

In addition there are many models which focus on overseas outsourcing commonly referred to as “off-shoring”. Given the large numbers and wide range of models claiming to provide best outsourcing practices there is a risk of confusing those the models are designed to help, this may well be part of the reason that many organisations chose not to use them. However it is interesting to note that some organisations have gone to great lengths to develop outsourcing procedures that incorporate elements of generic models but are tailored to their business. One of the organisations studied engaged a leading United States based consultant to develop an outsourcing framework for the New Zealand business activities.



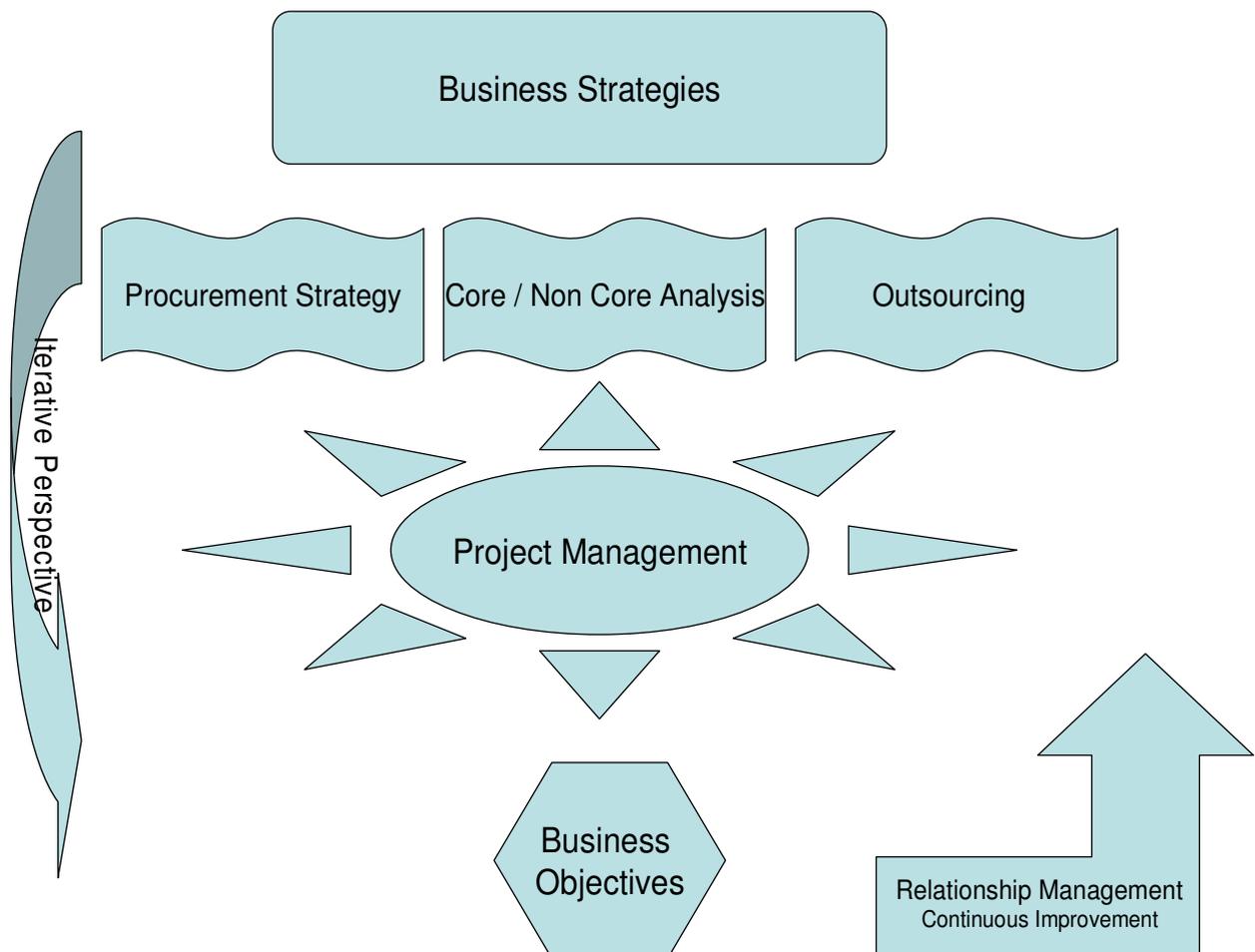
A model for outsourcing of procurement in New Zealand should be accessible and scalable with emphasis on the New Zealand market; it should be easily adaptable for industry sectors or business activities.

6. The “Iterative Outsourcing Model”

- A suggested model to guide outsourcing of procurement in New Zealand is introduced in this section. This will need further development outside the direct scope of this research. It is suggested now as it relates to the finding of the research and could form the basis of a guide for future consideration of procurement outsourcing in New Zealand. The model builds on existing models, project management principles and New Zealand procurement outsourcing learnings.

The model has two distinct levels. Initially it focuses on consideration of where procurement and outsourcing sit in the organisational structure and the need to identify links to business strategy and objectives. It is important to ensure the broader value proposition of procurement is understood and aligned with the overarching business strategy before considering outsourcing opportunities.

Figure 5. High Level View of “Iterative Outsourcing Model”.



This initial level of the model also has project management at its core as it is essential to use robust and transparent techniques when considering the significant organisational changes usually associated with outsourcing. Project management techniques, effectively delivered, provide organisations with the means to manage change successfully and with less risk (Obeng, 1994; Turner, 1999). Whilst project management includes careful management of stakeholder relations, continuous improvement and the need to iteratively develop scope clarity and plans, these have been shown as additional links in the model as they align with the findings of this research and are particularly important in the management of complex projects.

Naming the model, The Iterative Outsourcing Model, identifies the importance of progressively working through the model's steps but also returning to earlier steps for further consideration as greater clarity emerges during the process.

The second level of the model is a more detailed guide but retains the same focus on iterative development of strategies, plans and actions. It is shown in the form of a phased matrix table.

Table 8. **Matrix of “Iterative Outsourcing Model”**

Phase	Focus	Consider	Deliver	Outsource	Iterative Perspective
Concept & Initiation	Procurement Strategy	Links to organisational strategy		Define core activities	
		Value proposition Identification of core / non core activities		Align with procurement strategy identify outsource / in-house preferences	
	Procurement Capability	Technical / Domain expertise			
		Current and planned workloads			
		Market capacity and capability			
		Outsourcing drivers	Procurement Profile		
		Potential for outsourcing	Aligned Procurement Strategy		
	Broad justification for project	High level cost / benefit analysis	Project Brief		
<i>Continue - Yes / NO?</i>	<i>Formal confirmation of decision</i>	<i>Sign-off from key stakeholders</i>			
Plan / Develop	Internal Complexity	Case for change. Identification of problem / opportunity		Evaluate against best practice	Organisational Culture Stakeholder Expectations Business Priorities Assumptions Project Management * Scope * Resources * Time * Cost * Risks * Quality * Communications
		Stakeholder identification and analysis In-house capability and capacity		Consider business risks	
		Organisational impact assessment		Consider impact on culture Investigate NZ market capability & Capacity	
	External Perspective	PESTLE analysis		Decide on activities to outsource	
		Registration of Interest from outsource providers			
		Links to organisational strategy			
	Senior management engagement	Governance of project			
	Outsourcing Objectives	Business Case			
	Scope Clarity	Commitment of resources / funding			
	Formation of project team	Phasing	Project Initiation Report		
<i>Continue - Yes / NO?</i>	<i>Formal confirmation of decision</i>	<i>Sign-off from key stakeholders</i>			
Implement	Range of options	Staff involvement in outsource versus in-house options		Analyse relationship requirement	
		Range of skills required		Design management processes	
	Scope management	Work breakdown structures			
	Change management	Interdependencies - Internal & External	Project Implementation Plan		
		Barriers to change	Preferred Outsource Provider		
	Confirmation of Phasing	Procurement process	Change Management Plan		
Outsource management structure	Required outsourcing relationship	Outsourcing Schedule			
<i>Continue - Yes / NO?</i>	<i>Formal confirmation of decision</i>	<i>Sign-off from key stakeholders</i>			
Handover & Completion	Responsibilities	Outsourcing Relationship structure		Confirm KPI's	
	Future roles	Resource commitments		Confirm outsource management structures	
	Completion of contracts	Service level expectations	Service Level Agreement		
		Key Performance Indicators	Signed Contracts		

This model could act as a guide when considering outsourcing procurement processes. It provides the user with a framework to consider the interdependencies between procurement and other business outsourcing activity, as well as the relationship to organisational strategies and culture.

It is designed in phases to help the user focus on the most important areas throughout the lifecycle of the outsourcing project. It specifies the areas to consider and suggested deliverables. At the end of each phase a “Continue Yes/No” question is posed for the project manager and the organisational governance group to answer; so that support is confirmed before taking the project further. The shaded area on the right side of the model summarises the critical project management functions (Project Management Institute, 2004) under the heading “iterative perspective” to guide the user to revisit and refine these perspectives continuously.

It is described as the “Iterative Procurement Outsourcing Model” as organisations contemplating outsourcing procurement need to clarify how current business processes combine and relate to market availability of outsourcing capability while keeping risk and culture clearly in focus. This could be described as a looping process as the knowledge developed during each stage needs to be continuously related to the key elements included in the “Iterative Perspective” section, i.e.

- **Organisational Strategies**
- **Stakeholder Expectations**
- **Business Priorities**
- **Assumptions**
- **Project Management**
 - * *Scope*
 - * *Risks*
 - * *Resources*
 - * *Quality*
 - * *Time*
 - * *Communication*
 - * *Cost*
- **Project Organisation / Governance**

While the initial development of the model has come from this research project, it will need to be further developed and piloted before determining its usefulness in New Zealand procurement outsourcing projects.

7. The Research Question.

This dissertation objective was to find out the future potential for outsourcing procurement activities in large NZ organisations - focussing on;

- which business activities organisations consider part of procurement
- which procurement activities have been outsourced
- links to organisational strategy, outsourcing strategy and outsourcing activities
- the evaluation criteria used when making procurement outsourcing decisions
- the outsource management structure and process
- the level of satisfaction organisations have experienced with procurement outsourcing
- future intentions with regard to procurement outsourcing

The seven participating organisations are significant in the context of the New Zealand economy. Collectively they employ over 35,000 people with annual turnover of approximately \$12 billion. They were chosen from across industry sectors to give an approximate cross section of New Zealand business activity.

The questionnaire, interviews and document analysis provided good information to answer the main research question and sub-questions. The overwhelming data from the seven organisations in this research showed these organisations do not have plans to outsource procurement in the future. The main reasons were;

- Complexity of business activities and view that intimate knowledge is required which would not be provided by an outsourcing arrangement
- Preference to build in-house procurement capability
- Need for policy compliance controls
- Perception that outsourcing may reduce flexibility

- Uncertainty about the capability and capacity of the procurement outsourcing market
- Possible impact on people and organisational culture

All participants had experience of outsourcing and while they signalled intentions to continue outsourcing, they are unlikely to pursue opportunities to outsource procurement in the foreseeable future.

Whilst this research shows a reluctance of large organisations to outsource procurement, it is a relatively small sample and a larger research project will be needed in the future to more accurately predict outsourcing procurement intentions of New Zealand organisations.

8. Conclusions

The purpose of this research was to expand understanding of outsourcing procurement in New Zealand, including;

- *Business drivers and links to organisational strategy*
- *Models employed*
- *Outsourcing objectives*
- *Satisfaction levels with procurement outsourcing projects*
- *How the projects have been managed*
- *Plans for the future*

A review of related literature and study of seven New Zealand based organisations spread across industry sectors has provided insights into current practices and developing trends in outsourcing of procurement globally and in New Zealand. This research has also contributed to the development of a procurement outsource model for use in New Zealand.

Whilst the evidence in this study certainly points towards an increasing trend in outsourcing procurement (Tornbohm, 2005; Wilmott, 2004), there are concerns about outsourcing in many organisations. The high dissatisfaction rates reported by Heffes and Marshall (2004) and Mears (2005) are consistent with findings from the seven New Zealand based organisations who participated in this research.

Most respondents supported the use of outsourcing but were generally cautious about expected growth in this area; the main concerns were difficulties in managing outsourcing relationships effectively and the risk to core business and organisational culture. When narrowing the focus to outsourcing of procurement activities, additional factors such as the capability and small size of the New Zealand market and preference to retain control of procurement decisions were seen as important. These factors are likely to constrain growth

beyond buying in temporary skills for procurement projects where technical expertise or resource capacity is not available in-house.

Based on these research findings, it is unlikely that outsourcing procurement in New Zealand will experience growth in line with the expectations of large global corporations, because of the preference to retain control and flexibility in-house, the perceived complexity of business activities and concerns with lack of capability in the procurement outsourcing market. This finding is somewhat surprising as New Zealand often follows trends that are more advanced overseas.

The small size of the New Zealand market, capability of outsource providers, relatively small size of organisations and perceived complexity of business processes are factors that contribute to New Zealand's differentiation from international trends in procurement outsourcing. These include significant development of procurement outsourcing capability in recent years and projections of global growth of over 300% from 2004 to 2008 (Wilmott, 2004).

Organisations would benefit from improved focus on alignment of business strategies with their procurement structure and the use of outsourcing as a business and procurement tool (Mears, 2005). In addition when investigating outsourcing opportunities they would benefit by reviewing internal processes and streamlining where possible (Becker & Zirpoli, 2003).

No two projects are the same (Turner, 1999), procurement outsourcing projects are similarly unique and organisations would benefit from using a tailored model to guide investigations and evaluations of outsourcing opportunities. The model proposed for further development suggests a flexible framework to guide the user to iteratively consider key elements critical to the successful outsourcing of procurement activities and other business processes. It should also help the user to focus on effective management of key stakeholder expectations throughout the lifecycle of the project.

8.1. Limitations of this study

Tensions between the sometimes compelling outsourcing business drivers versus the negative outsourcing experiences of many organisations are likely to ensure continued interest in this area. Several authors describe the need to change how outsourcing arrangements are managed. There are some useful case studies of both successful and unsuccessful outsourcing experiences, however as case studies are by definition 'specific', it is difficult to draw clear conclusions that could form a basis for generic outsourcing business guidelines and even more challenging to extend conclusions into guidelines for outsourcing of procurement activities.

This research has similar limitations in that the sample of seven New Zealand based organisations is small, further research could include a wider sample with a larger number of respondents from participating organisations. The small size and potential bias of the sample also limits the ability to generalise from the research. Because of the time consuming nature of the data collections methods and the size of the research dissertation it was not possible to expand beyond the scope of this dissertation.

This approach has enabled the blending of procurement and strategic business procurement outsourcing experiences and early stage development of a model framework for possible use in procurement outsourcing projects. It has also identified the potential for more development and in depth analysis in the future by piloting the model and undertaking specific procurement outsourcing research.

8.2. Concluding Recommendations.

The following recommendations were identified as a result of this research.



More should be done to articulate the value proposition of procurement in New Zealand organisations. Senior executives should improve their understanding of procurement relevance and procurement

officers could emphasise strategic procurement value while simplifying tendering and purchasing processes which are sometimes seen as narrowly focused and overly bureaucratic. This should include promotion in terms of strategy development and management structure representation which could also help identify future outsourcing possibilities. It may also help avoid potential conflict of interests in outsourcing situations when business functions which could potentially be impacted are responsible for initiation and investigation of outsourcing evaluations.

↗ All seven organisations in this research had some positive outsourcing experiences but only two included explicit mention of outsourcing in their strategic or business plans. Organisations should include consideration of outsourcing strategies during long term planning cycles.

↗ Without alignment of organisational culture, senior management philosophy and core business activities; outsourcing investigations, evaluations and subsequent contracts are unlikely to succeed. As scope and expectations of outsourcing projects are clarified, formal commitment to the project objectives and process should be obtained from senior management and key organisational stakeholders.

↗ When a business process improvement role is taken on as part of an outsourcing project there are often problems associated with process commitment and buy- in to changes from throughout the organisation, even though this role may be valued at a senior level. It is important to clarify and confirm the mandate for these involvements, as well as the interdependencies with other activities and commitment from key internal stakeholders at the initiation of each project and at key stages during the project life cycle.



A model for outsourcing of procurement in New Zealand should be accessible and scalable with emphasis on the New Zealand market. It should be easily adaptable for industry sectors or business activities and include identification and analysis of existing and planned outsourcing categories. It should also draw on project management principles and to develop clarity of objectives, support for related changes and transparency of delivery processes.

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10. Appendices

10.1. Appendix 1 - Questionnaire

UNITEC Institute of Technology
School of Management and Entrepreneurship

Outsourcing Procurement Survey

To be completed by Chief Procurement Officer, either;
Electronically, (“Track Changes”) and email to tim.collins@ird.govt.nz or
By hand, and post to Tim Collins, Inland Revenue, PO Box 2198 Wellington

Background

- A) Name of your organisation.
- B) Please describe what your organisation does?
- C) Approximately how many permanent staff does your organisation employ?
- D) Briefly provide some individual information;
Name...
Title...
Responsibility...
Reporting to...
Length of time employed by this organisation...

Business Strategy

- A) Does your organisation have a written strategic plan?
- B) How does outsourcing relate to your strategic plan?
- C) How does procurement relate to your strategic plan?
- D) Is outsourcing or procurement explicitly mentioned in your strategic plan?

Outsourcing

- A) What business activities are considered to be “core” in your organisation?
- B) What business functions are outsourced?
- C) Were any of these outsourced functions ever considered to be “core business activities”?

Outsourcing Drivers

- A) What were the key drivers behind your organisation’s decision to outsource?
- B) At what level in the organisation was the decision to outsource made?
- C) Did the organisation have a documented outsourcing strategy in place?
- D) How did you determine what activities should be outsourced?

E) Why did you decide to keep your organisation's other activities in-house?

F) What outsourcing models (if any) were used for evaluating outsourcing opportunities.

Managing Outsourcing

A) How have the outsourcing arrangements been managed?

B) Have specialist roles been established?

Did the outsourcing management requirement meet your organisations expectations?

Please provide additional information if appropriate.

How has the performance of the outsourcing provider been measured?

Procurement

A) Approximately what is the annual procurement spend of your organisation? (exclude direct labor costs).

B) Please indicate using "YES" or "NO" which of these activities are considered part of the procurement function in your organisation?

Activity	"Yes" or "No" ?	Optional Comments
Category management		
Expenditure analysis		
Strategic sourcing		
Management of procurement projects		
Supplier market research		
Supplier qualification and selection		
Supplier e-enablement		
Request for proposal management		
Bid preparation and management (including Web-based auctions)		
Contract management and operational compliance		
Cost analysis		
Transaction management		
Supplier relationship management		
Placing and monitoring purchase orders		
Managing inventory		

Payment of accounts		
Sustainable business / procurement expertise		
Others (Please describe)		

Outsourcing Performance

A) Does your organisation currently have any agreements with external procurement service providers?

If Yes, Please provide brief summary.

If No, Have you considered outsourcing some or all procurement activities ?

B) To what extent do you consider the following factors contribute to successful outsourcing of procurement activities? Please ‘tick’ ✓

Factor	Not Important	Moderate	Extremely
<i>Provider’s understanding of your business</i>			
<i>Acceptance of outsourcing by your staff</i>			
<i>Cost savings achieved</i>			
<i>Responsiveness of the service provider</i>			
<i>Communication/interface between the parties</i>			
<i>Retention of ultimate control</i>			
<i>Quality of service provided</i>			
<i>Compliance with internal or external policies</i>			
<i>Partnership or formal alliance with outsource provider</i>			
<i>Quality of personnel assigned by provider</i>			
<i>Clarity of objectives prior to outsourcing</i>			
<i>Effective performance measurement tools</i>			
<i>Performance based fee structures</i>			
<i>Cost saving share structure</i>			
<i>Full analysis of costs prior to outsourcing</i>			
<i>Well developed service level agreement</i>			
<i>Well planned transition of services</i>			
<i>Other (please describe)</i>			

C) Were your organisation’s outsourcing objectives met ?

D) To what extent have procurement activities been successfully outsourced by you organisation, please indicate (circle) the general perception of success for this outsourcing.

Unsuccessful

Moderately successful

Very successful

Please comment on the ways in which this outsourcing has been:

Successful _____

Unsuccessful _____

Are there any procurement activities that your organisation previously outsourced, that are now being performed internally within your organisation? (Yes or No).

If yes, please comment

_____ Continue on separate sheet if necessary

Future Focus.

What do you believe to be the biggest challenges for outsourcing procurement arrangements?

What plans do you have for outsourcing procurement activities in the future ?

What plans do you have for outsourcing other business processes?

THANK YOU FOR TAKING THE TIME TO COMPLETE THIS SURVEY

10.2. Appendix 2 - Interview Questions

Final Interview Questions

Focus	Question
Background	<ul style="list-style-type: none"> . <i>What would you describe as the purpose of your organisation? And how does this relate to the key business activities?</i>
	<ul style="list-style-type: none"> . <i>How does the procurement function relate within your organisational structure?</i>
Context	<ul style="list-style-type: none"> . <i>Does your organisation consider which business activities are Core & Non Core?</i> . <i>Do you have a business strategy to outsource non-core business processes?</i> . <i>Can you tell me about some recent business process outsourcing experiences?</i>

Definition

- . *How do your procurement activities benefit your organisation?*
- . *What procurement activities do you believe have outsource potential?*

- . *Can you describe your experience of arriving at a decision to outsource a business process? Pick one eg ...*

- . *At what level was the final decision made?*

- . *What were the most important reasons / drivers behind the outsourcing decision? – say 2 or 3 of the key drivers.*

- . *Did you use or consider any model to assist this decision?*

Drivers	<ul style="list-style-type: none"> . <i>What procurement activities have you outsourced?</i>
Infrastructure	<ul style="list-style-type: none"> . <i>How has the performance of the outsourcing provider been managed?</i> . <i>and measured?</i>
Performance	<ul style="list-style-type: none"> . <i>What has worked well?</i> . <i>What have the greatest challenge been ?</i> . <i>What could have been done differently to get a better outcome?</i> . <i>What do you believe determines the success of a good outsourcing arrangement?</i>
Evaluation	<ul style="list-style-type: none"> . <i>How satisfied are you with each outsourcing generally ? (On a scale of 1 to 5 with 1= Extremely dissatisfied & 5= Extremely Satisfied).</i> . <i>Are you planning to make any changes to current procurement outsourcing arrangements?</i>
Future	<ul style="list-style-type: none"> . <i>What intentions do you have for outsourcing procurement in the future?</i> . <i>What you prevent you from outsourcing some or all procurement activities?</i>

10.3. Appendix 3.- Consent Form.



Consent Form

Outsourcing procurement activities in large NZ organisations

This consent will help me to get information for a research project looking at experiences of large NZ organisations outsourcing procurement activities and their future plans.

I have read and understand the information sheet given to me.

I understand that I don't have to be part of this research and that I may withdraw at any time prior to the completion of the research on Sept 30th 2006.

I understand that everything I say is confidential and none of the information I give will identify me or my organisation and that the only persons who will know what I have said will be the researcher and his supervisor. I also understand that all the information that I give will be stored securely on a computer at UNITEC for a period of 5 years.

I understand that my discussion with the researcher will be audio recorded and transcribed.

I understand that I can see the finished research document.

I am aware that I may contact the Research Supervisor, Dr Simon Peel UNITEC, (09) 815-4321 ext. 8650 if I have any queries about the project.

I have had time to consider everything and I give my consent to be a part of this.

Participant Signature: **Date:**

Organisation **Date**.....

Project Researcher: *Tim Collins* **Date:**

This study has been approved by the UNITEC Research Ethics Committee. If you have any complaints or reservations about the ethical conduct of this research, you may contact the Committee through the UREC Secretariat (Ph: 09 815 4321 ext.7254). Any issues you raise will be treated in confidence and investigated fully, and you will be informed of the outcome.