



REVIEW OF CONTEMPORARY PRACTICES IN THE EXTERNAL OUTSOURCING OF SERVICES TO COMMERCIAL SERVICE PROVIDERS BY UNITED NATIONS SYSTEM ORGANIZATIONS

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Background

While external outsourcing of services (and related goods) to commercial service providers accounted for US\$ 22.4 billion in expenditure by 23 JIU participating organizations from 2012 to 2018, there is no specific consideration of, or regular reporting on, the subject matter, beyond standard reporting on procurement. The review was undertaken following a proposal from the United Nations – the topic has been previously reviewed by the JIU in 1997 and 2002.

services to commercial service providers is conducted and managed.



What has JIU found

1. Two definitions, decades-old reports and no policies or common conceptualization of outsourcing.

None of the organizations have a dedicated policy or guidelines on outsourcing and only two formal definitions of outsourcing exist – one contained in a report of the Secretary-General (1999) and the other in the UN Procurement Practitioners Handbook (2017). While the United Nations is the only organization to issue dedicated reports on outsourcing, the last to be issued was in 2004. Each organization conceives outsourcing differently, does not distinguish it from procurement in most cases and considers outsourcing provisions to be embedded into procurement and supply policy provisions and financial regulations and rules. The report encourages organizations to focus on right-sourcing, i.e. the service that it is expected to deliver and the best way to deliver it, and calls for deliberations through the Procurement Network of the High-Level Committee on Management (HLCM), to arrive at a minimal common system-wide conceptualization of outsourcing.

2. Outsourcing constitutes over one-fifth of total procurement in 12 organizations.

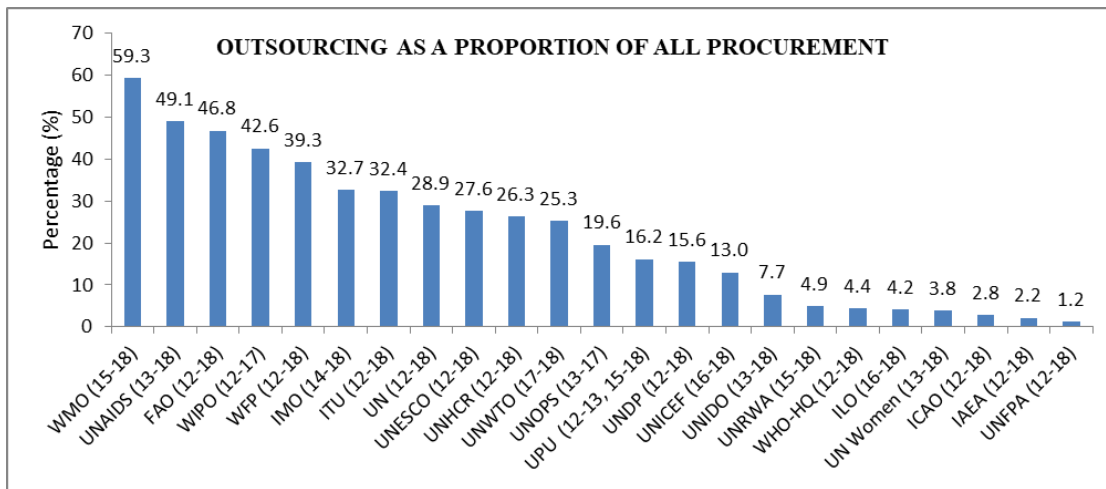
Outsourcing accounts for a significant proportion of total procurement in 12 of the 23 organizations that provided data, ranging from a fifth to three-fifths of all procurement. It accounts for less than 5% of procurement in seven organizations and from 8% to 16% of procurement in four others. As a proportion of total organizational expenditures, outsourcing accounts for less than 10% in 19 organizations, and from 11% to 21% of expenditure in four organizations (WFP, WIPO, UNOPS, FAO).

Outsourcing	Procurement
A business strategy resulting from a conscious and deliberate exercise of choice (right-sourcing). It determines the business imperatives to engage a service provider(s) on a long-term relationship, and as such, the service provider may become an integral part of the entity's operations, regardless of the engagement modalities. This exposes the entity to several risks that it must assess and mitigate.	A business enabler that involves the sourcing of goods, works and services to respond to an organization's business needs, and supplements its operational capacity, in adherence to laid-down rules, regulations and procedures.



Objective

The objective of the review was to assess the strengths, weaknesses, opportunities and threats of utilizing the option of external outsourcing, and to outline the existing enabling legislation and policy. Its purpose was to facilitate a clearer understanding by legislative bodies and executive heads of the current status of external outsourcing, and to provide a tool-kit for organizations to improve how outsourcing of



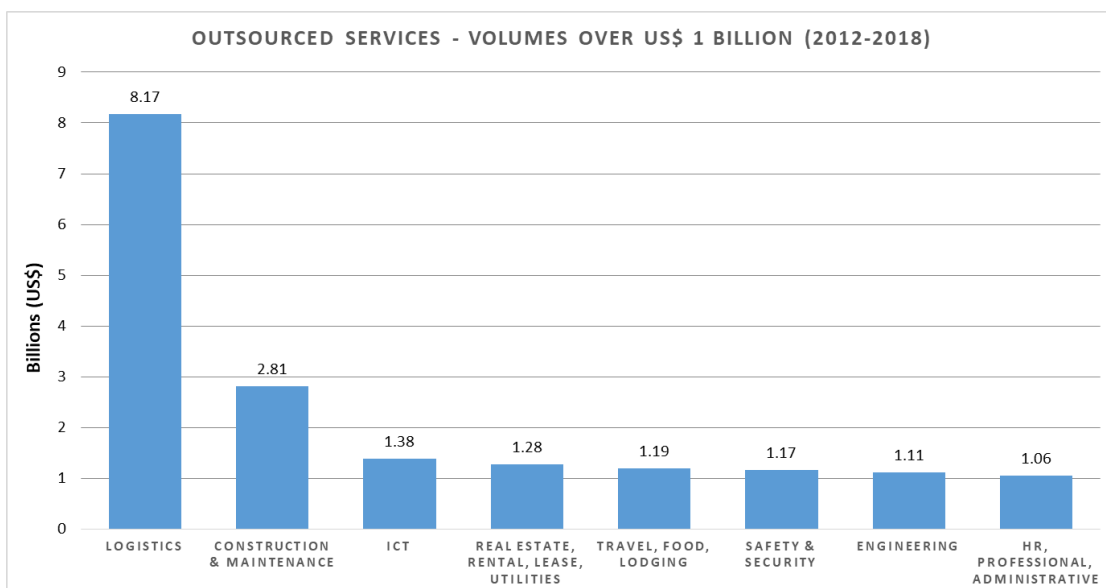
feasible in-house alternatives due to the costs associated with having the infrastructure in place to deliver them. All other categories include services that are either produced entirely in-house or are partially or largely outsourced. When comparing expenditures for the earliest to the most recent year with reported data, expenditures increased for 15 of the 22 broad service categories.

3. 93% of overall outsourcing expenditure encompassed by only six organizations.

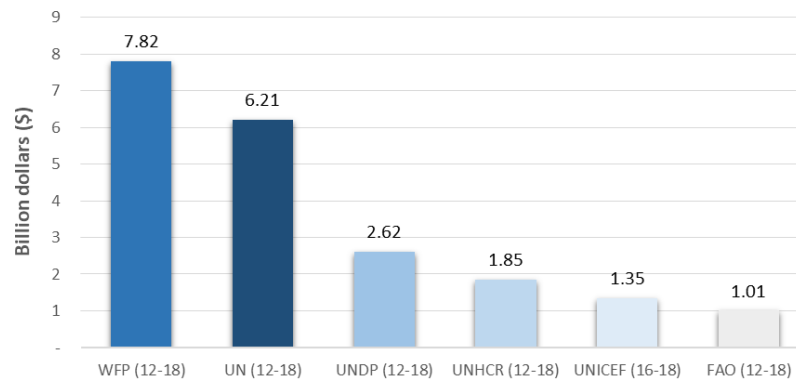
Six organizations collectively outsourced US\$ 20.9 billion worth of services and related good from 2012 to 2018, constituting 92.8 per cent of outsourcing expenditure by all organizations. Over the same period, expenditure on outsourcing was between US\$ 50 to US\$ 425 million in eight organizations (ITU, UNAIDS, UNESCO, UNIDO, UNOPS, UNRWA, WHO-HQ, WIPO) and less than US\$ 36 million in nine others (IAEA, ICAO, ILO, IMO, UNFPA, UN Women, UNWTO, UPU, WMO). Overall, outsourcing expenditure has increased by 25.8% in the 15 organizations reporting data for all years from 2012 to 2018. When comparing the earliest and most recent year for which the 23 organizations reported data, expenditures increased in 17 of the 23 organizations.

4. Four services categories constitute nearly 60% of total outsourcing volumes and generally have no in-house alternatives.

Of the 22 broad categories of outsourced services for which expenditure data is provided in the report, eight categories exceeded over a billion dollars in expenditure, collectively constituting US\$ 18.2 billion or 80.8 per cent of overall outsourcing volumes. Six categories had volumes between US\$ 300 million to US\$ 900 million, and eight had volumes less than US\$ 300 million. Four high-volume categories - logistics (air, sea and land transport and storage), facilities construction, engineering services, and real estate and utilities - constituting US\$ 13.4 billion or 59.4% of overall outsourcing volumes - generally have no



ORGANIZATIONS WITH OUTSOURCING VOLUMES OVER US\$ 1 BILLION (2012-2018)



5. Outsourcing relations and arrangements are accompanied by multi-faceted challenges and risks, many with mitigating factors, and accompanying opportunities and solutions.

Some challenges and risks affect outsourcing relationships in general, irrespective of location, and are largely related to:

- national laws;
- interests of Member States;
- particularities of inter-governmental organizations;
- financial rules and regulations and procurement policies;
- specialized and customized services;
- volume and costs of outsourcing;
- internal capacity, control and communication constraints;
- physical and information security considerations;
- poor vendor performance and inappropriate vendor conduct and practices; and other factors.

Other challenges and risks are specific to outsourcing to vendors in developing countries, to humanitarian emergency and crisis contexts and to outsourcing by peace-keeping operations.

6. Organizations have realized a range of tangible and non-tangible benefits through outsourcing.

Non-tangible	Tangible
Greater flexibility and speed in meeting surges in demand and changing needs of organizations;	Cost-savings through more favorable contractual terms and rates on services, and lower contract administration burdens;
Options to ensure business continuity;	Volume discounts through joint tendering and greater usage and sharing of Long-Term Agreements;
Access to latest financial market knowledge and technological tools and skills; and	Organizational status discounts;
More impartial implementation of rules.	Lower personnel costs through access to on-demand and part-time personnel;
	Absorption of losses by vendors;
	Flat fee for services;
	Elimination of equipment acquisition and maintenance costs;
	Higher returns on investments through outsourcing their management.

7. Exploit advances in ICT to increase efficiencies in outsourcing arrangements.

While the type of services outsourced has not changed considerably in most organizations over the past two decades, **outsourcing arrangements have evolved due to:**

- rapid advances in technology, particularly ICT; and
- growth of organizations and changes in their mandates, business models, needs and regulatory environments.

With most outsourced contracts having some ICT components, organizations noted that **efficiencies can be increased through:**

- tying contract awards to investment in innovation by vendors;
- identifying key ICT-related competencies that must be retained internally;
- utilizing vendors with proven track record on staying up-to-date on latest developments;
- outsourcing ICT elements for which risks and threats are constantly evolving;
- eliminating the use of intermediary vendors;
- applying industry best practices outlined in ISO 9000 (quality management), ISO 27001 (cyber-security) and ISO 20000 (services delivery);
- ensuring centralized clearance of ICT specifications for any outsourced contract; and
- encouraging vendors to evolve and automate ICT helpdesk services.

8. Improve decision-making on outsourcing through more systematic conduct of cost-benefit analysis and risk assessments.

Cost-benefit analysis are more the exception than the norm in most organizations, with no common template or methodology in place for their conduct. Examples of cost-benefit analysis conducted by organizations demonstrate that decisions to outsource (or not) are clearly better-informed in such cases.

Through engaging in outsourcing, organizations have been exposed to a **range of risks** that include:

- legal risks;
- inappropriate vendor practices (fraud, collusion, undersupply, kickbacks);
- reduced flexibility;
- physical security risks;
- data security risks;
- financial risks;
- vendor lock;
- business continuity risks; and
- cultural insensitivity risks.

Entities should ensure that outsourced services are subject to periodic risk assessments, and that appropriate guidelines are developed. In this context, the review identifies several useful measures to assess and mitigate risks.

9. Improve vendor selection processes through integration of select measures.

The vendor selection process is key to ensuring that the right party with the necessary capacity has been selected to engage in a contractual arrangement where the deliverables, quality standards and timelines are clearly laid out. **To further efficiencies,** the following measures should be integrated into vendor selection processes:

- preparation of an orientation document that explains conceptually how the tender is going to work;
- application of pre-qualification requirements whereby bids are only sent to and received from vendors who can comply with requirements;
- conduct of market research to identify latest technologies and innovations;
- utilization of external expertise to assist in tendering processes for highly specialized services;
- testing potential vendors on components of the service to be delivered;
- testing services offered by vendors;
- weighing pros and cons of outsourcing to freelancers versus companies;
- collecting and analyzing user feedback to identify needs and adjust deliverables for future contracts;
- providing structured support to field offices;
- using neutral parties to further independence in scoring bids;
- developing practical and meaningful SMART performance indicators; and
- ensuring balance between quality and cost criteria.

10. Improve post-award contract management process through integration of select measures.

Post-award contract administration and management is critical/vital to ensure that the parties to an outsourced contract fulfil their obligations and that the end-user is supplied with goods or services of the requisite standard by the required time and within budget. To further efficiencies, **the following measures should be integrated into post-award contract management processes:**

- developing strategic relations with vendors to benefit from innovative solutions;
- developing online tools that allow for real-time contract monitoring;
- including clauses in contracts to renegotiate baselines;

- factoring in a learning curve for new vendors;
- tailoring the frequency of vendor monitoring to the nature of the outsourced service;
- establishing multiple layers of quality assurance;
- establishing multiple levels of vendor monitoring;
- enforcing compensation clauses;
- establishing and enforcing early termination clauses;
- sharing lessons learned with vendors; and
- establishing vendor transition arrangements.

11. Strengthen internal coordination on outsourcing.

While procurement and requisitioning offices are the two functions primarily engaged in all stages of outsourcing, specific roles are also performed by committees on contracts, legal and human resources offices, senior management and staff representative bodies. While changing from internal services to external outsourced arrangements is a change management issue that requires careful coordination and planning, only two organizations have designated offices to undertake organization-wide coordination among relevant functions on outsourcing. To address this deficit, organizations with considerable outsourcing volumes should consider establishing a focal point function for external outsourcing, who would assist requisitioning offices to identify and objectively assess sourcing options, with a focus on technological innovations, and share lessons learned and good practices organization-wide among outsourcing practitioners.

12. Enhance internal capacity of contract managers.

Deficiencies in the capacities of contract managers for outsourced services include:

- inability to describe what was needed and corresponding technical specifications due to a lack of domain knowledge and non-conduct of market research;
- lack of awareness of technological innovations and the inability to grasp how such innovations can be factored into service requirements;
- lack of familiarity with procurement rules and procedures; and
- the inability to link payment to performance.

To address these deficits, contracts managers and procurement officials highlighted the **need for training on:**

- cost/benefit analysis;
- risk assessments and mitigation;
- developing scope of work and performance indicators;
- testing and interviewing vendors;
- vendor performance monitoring;
- quality control;
- managing relations with vendors;
- sharing lessons learnt; and
- undertaking rapid scalability in crisis contexts.

While 17 organizations had provided relevant training for personnel engaged directly or indirectly in external outsourcing, only seven require that personnel engaged in managing outsourced contracts be professionally certified. All trainings were related to procurement actions and none were specific to outsourcing.

13. Further inter-agency coordination on outsourcing.

Joint tenders and piggy-backing on long-term agreements concluded by other agencies have led to considerable savings on time and cost, while common platforms like the HLCM Procurement Network and duty-station specific procurement groups have allowed for sharing of innovations in outsourcing approaches and common guidance on managing coordinated tenders. However, organizations highlighted **limitations to inter-agency coordination** that include:

- not systematically informing others of all LTAs concluded;
- overly bureaucratic platforms for collaborative outsourcing that disincentivise participation;
- inertia, internal resistance and unwillingness of entities to compromise on territorial rights through collaboration; and
- over-reliance on certain large vendors.

To further inter-agency coordination, organizations highlighted the need to:

- further mutual recognition of rules and procedures for outsourcing;
- develop joint service standards and identify commonly-used companies;
- share third-party risk management frameworks, market surveys and vendor performance reports;
- develop a repository of contracts, terms of references and technical evaluation matrices; and
- develop a standardized methodology for the conduct of cost-benefit analysis for commonly-used services.

14. Improve reporting and oversight on outsourcing practices.

There is no requirement in any organization to separately report on outsourcing when reporting on procurement. In terms of oversight, while all procurement activities are subject to regular audits by internal audit offices, no dedicated evaluations or audits have been conducted, either exclusively or primarily, on the topic of outsourcing. However, several audits have been conducted on outsourced services and other subject matters relevant to outsourcing. Given the volume, scope and diversity of outsourcing activities in United Nations system organizations, and the risk that the lack of adequate oversight can result in inefficiencies and opportunities going undetected, the report calls upon oversight offices to periodically review organizational-level risks associated with outsourcing.



What JIU Recommends

The JIU makes 7 formal recommendations to the General Assembly and executive heads of Organizations, as well as 43 informal recommendations.

Executive heads of United Nations system organizations are called on to:

1 Develop common organization-wide definition approaches and procedural guidelines on outsourcing.

3 Assess the use of supply sources from vendors in developing countries and economies in transition, and increase it, as applicable, without contravening organizational policies for effective competition.

4 Ensure that sourcing of any strategic, sensitive or high-value service (and related goods) from a commercial service provider, is preceded by the conduct of a clearly-documented strategic analysis that includes short and long-term considerations and costs, and that the analysis has been reviewed and approved by the appropriate authority, prior to a formal decision on the sourcing option.

5 Ensure that strategic, sensitive and high-value commercially outsourced services are subject to periodic review, including risk assessments, and appropriate risk management measures are developed.

6 Develop criteria for consideration of extension of outsourced service contracts beyond standard timeframes, and present them for adoption and incorporation into policy documents.

7 Ensure that clearly detailed guidelines for managing vendor transition - including corresponding back-up arrangements - are developed for strategic, sensitive or high-value commercially outsourced services, and that solicitation documents outline vendor responsibility regarding transitional assistance and knowledge transfer to the organization and incoming vendor.

Legislative bodies of United Nations system organizations are called on to:

2 Request executive heads to ensure that annual reports on procurement include a sub-section on expenditures on services sourced from commercial service providers.



Methodology & Approach

In accordance with the JIU internal standards and working procedures, a mixed-method research approach was utilized, which consisted of:



Desk review of external outsourcing related mandates, policies, guidelines, and oversight reports from JIU POs, other IOs, public and private sector entities, NGOs and academic institutions;



400 interviewees from 21 JIU Participating Organizations (POs) and 13 other International Organizations (IOs);



Corporate and follow-up questionnaire responses from 25 JIU Participating Organizations (POs);



Supplementary questionnaire responses from 19 Peace-Keeping Organizations (PKOs) and Special Political Missions (SPMs);



8 missions to Beirut, Brussels, Copenhagen, Naquora, New York, Paris, Rome and Washington D.C.



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