ΣΕΒ Παρατηρητήριο Επιχειρηματικού Περιβάλλοντος
Ανάπτυξη χωρίς εμπόδια

Thematic study

Athens, November 2014

Lifting the obstacles for the utilization of outsourcing as a tool to increase value-added services to enterprises

Executive Summary

This study was prepared by the House of the Greek Manufacturing Industry ("Stegi tis Ellinikis Viomixanias") and with the support of the Hellenic Federation of Enterprises (SEV), within the scope of the project "Creation of an intervention mechanism for identifying, processing and assessing the administrative obstacles faced by enterprises. It is implemented under the Operational Programme "Public Administration Reform", 2007 - 2013.

European Union
European Social Fund

With the co-funding of Greece and the European Union

Letter from the President

The provision of more, greater quality and higher value added services to businesses and citizens has a direct impact in improving the entrepreneurial environment and maximizing the cost effectiveness of public spending.

The vision of SEV focuses on an open, extroverted and creative Greece that every citizen would want to visit, live and invest. It is a national target; one great, big and visionary idea in a world of innovation, knowledge and speed. The necessary changes concern so much the micro, as much as the macro environment for the purpose of utilizing the untapped reserve of the natural, historical, cultural and productive capital, strategically, with respect to the environment and provision for future generations. The way through which this reserve will be transformed into GDP is an ongoing discussion.

The Business Environment Observatory of SEV through its current initiative and within the scope of the tasks it has undertaken to improve the business environment and the quality of public services provided, it aims to support the public administration in utilizing the outsourcing practices in large public service categories. This in turn will not only allow for lasting and sustainable savings in public funds, but will also raise the quality of the services provided, while at the same time promoting growth and increasing employment.

While outsourcing consists a widely used practice on an international and even European level of both the public and the private sector, its utilization rate in Greece remains particularly low. Although these practices are not new, even to Greece, still, legal and bureaucratic obstacles, as well as the inability of the public administration (both on central and local government levels) to meet technically-demanding requirements that characterize the relevant processes, deprive both the government and its citizens substantial economic gains and qualitative benefits.

The numerous success stories of outsourcing implementation in the public sector and the local government testify to its significant gains. However, in the present state of affairs, the necessary changes require effective interventions in order for these to be utilized, rendering the formulation of specific proposals an imperative for realizing these benefits.

SEV acknowledges its constitutional role in formulating viable and directly implementable solutions to the notable problems of the Greek economy and government that have a positive and visible impact to the citizens, the businesses and the public administration itself. For that reason, it proposes an End-to-end Process for leveraging outsourcing best practices and an Action Plan in order to allow the State, what the private sector has been successfully implementing for years. It is our strong belief that the know-how of the good operating practices found in the private sector, should be transferred to the Public. Without harming public sector employment, many uncritical activities of the State can be assigned to private companies via the practice of outsourcing, ensuring substantial cost reductions and better services for the citizens.

SEV can assist the State to achieve that.

Following the lessons learned from the international experience, outsourcing can be practiced at the highest standards, with the appropriate safeguards and within the limits of the law to maximize the benefits and minimize the risks associated of transferring the ownership of public goods production outside the confined state core.

The present study documents on a systematic manner the key success factors for the fruitful implementation of outsourcing practices in the public sector. This formed the basis for the proposed interventions. These include the formulation of a comprehensive strategy, as well as the development of an effective support mechanism of the public administration for the implementation of strategic, managerial and operational initiatives in order to increase the value-added services to citizens and businesses.

The successful incorporation of outsourcing in public administration can only benefit society and the economy. SEV will support any endeavor, embracing its role and responsibility in the beginning of a new era for Greece.

Theodore Fessas

President of SEV

Business Environment Observatory

vision

establishing institutions and rules that support the competitiveness of enterprises and the country's development

mission

promoting radical policies and business environment reforms, through the partnership of creative forces in business and public administration

The establishment of the Observatory is **the institutional continuity of SEV's initiative: "Entrepreneurship without obstacles: opening paths to growth".** SEV has undertaken this initiative in order to contribute to the improvement of the business environment and to the removal of any obstacles standing in the way of entrepreneurship.

Within the scope of its institutional role in the promotion of policies for the social progress and social cohesion, and the country's economic development and business competitiveness, SEV has proceeded to the establishment and operation of the **Business Environment Observatory**, the goals of which include:

- **Systematically identify** limitations, obstacles and problems that hinder business development, have a significant negative economic effect and often overturn the expected benefits of the business venture itself.
- **Evaluate** the friendliness of the business environment and the consistency of the regulatory framework which forms it.
- Formulate **substantiated policy recommendations** aiming to promote the necessary changes and reforms as well as to establish an effective business environment.
- Systematically monitor and **assess the effectiveness** and efficiency of reforms and changes which are implemented in order to improve the business environment.
- Develop a new **change and reform promotion** methodology, supported by the partnership of creative forces in business and public administration, in order to achieve more effective regulation of matters of public interest.
- Conduct **consultation**, with constant and meaningful cooperation between competent officers both from enterprises and public administration, an activity that ensures the completeness of the process of identifying obstacles from their original sources and the joint effort to produce solutions.

The **activities** undertaken by the Observatory are, in summary, the following:

- Thematic studies for significant areas of obstacles.
- Specialised studies on obstacles and reports on methods to address them.
- Opinion research/Public services quality barometer.
- Detailed recording of procedures and obstacles in the business environment.
- Consultation workshops.
- Drafting of policy recommendations.
- Cooperation with the public administration authorities, the scientific and the business community.

For more information regarding the activities and operations of the Observatory please refer to our website www.observatory.org.gr

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1 General framework

1.1 Objective and scope of the study

The **Business Environment Observatory of SEV**, among its initiatives to improve the business environment of Greece and to raise the quality level of the public services provided, has undertaken the task to conduct the present study, titled: "Lifting the obstacles for the utilization of outsourcing as a tool to increase value-added services to enterprises".

In particular, this study aims to analyze the feasibility and applicability of outsourcing practices to public value-added services for the purpose of substantiating the following related benefits:

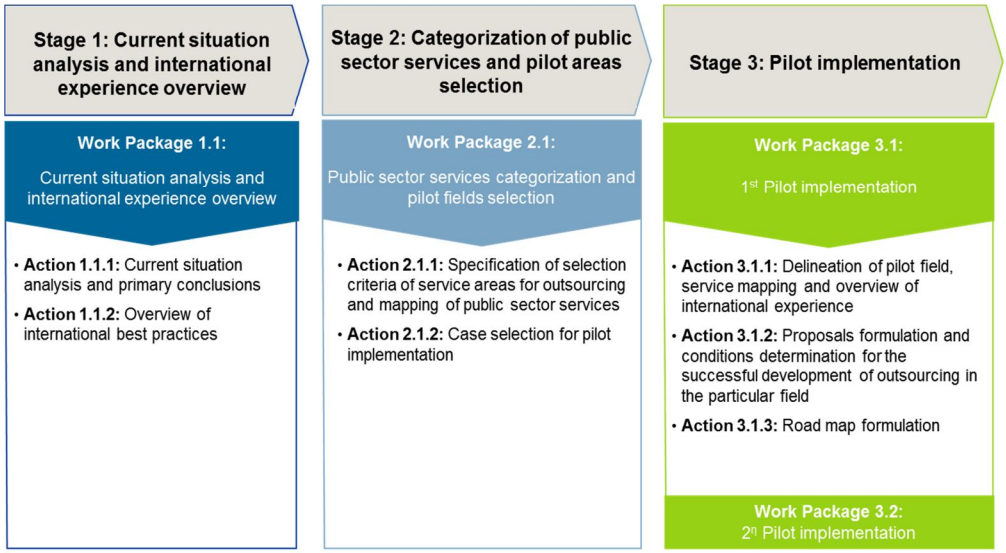
- **Savings** in public funds
- **Quality improvements** in the provided services
- **Increased "customer" satisfaction** (citizens and businesses)
- **Enhanced economic return** of public spending

For the purpose of successfully incorporating outsourcing in the public services sector, the present study sought to achieve the following objectives:

- Identification and specification of alternative outsourcing models, appropriate control points and monitoring processes (indicatively: legal framework, associated operating and contracting processes, cost-benefit analysis methodologies), applied in the private and public sectors
- Determination of relevant prerequisites and public sector capabilities for the immediate implementation of outsourcing (per category of public services)
- The pilot implementation of outsourcing to specific categories of public services to businesses

The present study is organized in three Stages, as depicted in the following Figure:

Figure 1. Study objectives



1.2 Defining outsourcing

*At the core of outsourcing is the **"transfer of control"** in terms of factors of production and the right of decision making, but not in the quality and scope of service.*

For any analysis to be meaningful, it is necessary to set a common and fast reference point. For that reason outsourcing is defined as follows:

Outsourcing

The practice of conferring responsibility and ownership of a business process otherwise performed in-house, to an external supplier, on the basis of a precise and predetermined quality framework.

The concept of outsourcing (or "contracting out") is differentiated from the traditional practices used for the procurement of public services (ie. sourcing, Public-Private partnerships, market liberalization, privatization) as to the following key points:

- **Long-term provision of services** from the supplier, rather than a once-off execution of a specific business task
- **Transfer of** the business functions / activities / services that are traditionally executed internally on a regular basis
- **Transfer of control** and ownership of the outsourced business activities to the supplier
- **Transfer of production means** and resources to the supplier
- **Transfer of decision-making rights** to the supplier

2 General methodological approach

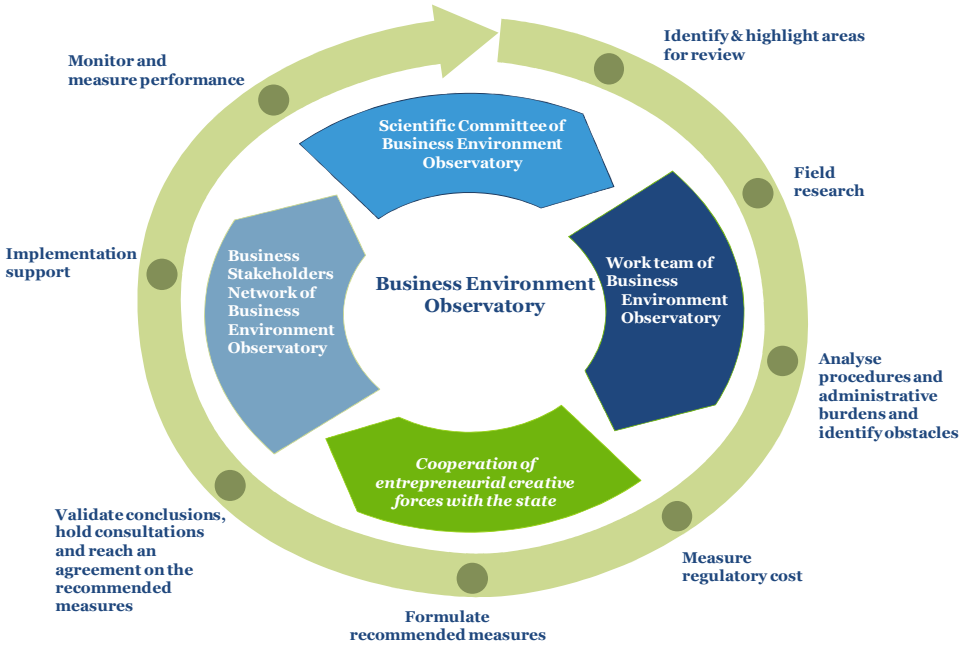
The **Business Environment Observatory**, within the scope of its operation, conducts thematic studies on areas of interest that have a significant effect both on the development of entrepreneurship and the reinforcement of the competitiveness of the economy.

The innovation of these studies lies in the method (the knowledge sources are utilised) as well as the broad range of the field of investigation. More specifically:

- **Utilising knowledge of the market and public administration:** the study is conducted through constant and meaningful cooperation between competent officers from enterprises and public administration, an activity that ensures the completeness of the process of identifying obstacles at their original sources and the joint effort to produce solutions.
- **The broad range and subject of analysis:** the analysis performed goes beyond identifying administration obstacles for the utilization of outsourcing of public services, but expands to the analysis of all obstacles and drawbacks caused by the regulatory framework and business environment, focusing on the reinforcement of the enterprises' development prospects.
- **The completeness of the proposed solutions:** the study not only produces conclusions, but also recommends integrated and prioritised solutions and a mechanism for implementing outsourcing in the public sector.

The following chart shows how the aforementioned methodology was applied in this study.

Figure 2. Innovative approach applied by the Business Environment Observatory



3 Strategy and proposals on the utilization of outsourcing

3.1 Characteristics of proposed interventions

The general methodology employed in the studies of the Business Environment Observatory, classifies the proposed interventions as follows:

- **Strategy:** An overall assessment of the outsourcing process in the Greek public sector is performed, in a systemic and integrated manner.
- **Governance, roles and responsibilities:** Improvements regarding the different responsibilities among the involved parts
- **Procedures:** Changes concerning the level of standardization of individual processes, their simplicity and user-friendliness as well as the end-to-end process is assessed (the term process refers here to a higher level of detail in activities than procedure).
- **Systems and technologies:** Improvements concerning level of utilization of Information & Communication Technologies.
- **Performance assessment – continuous improvement:** Changes with regards to the mechanisms in place for service performance measurement, evaluation and monitoring.
- **Organization and human resources:** Improvements on the internal organizational structure and human capital management of the stakeholders.
- **Legal framework:** Changes with respect to the degree of simplicity, integration and codification of legal texts. This area affects all levels.

Figure 3. Assessment dimensions of the processes of outsourcing in the public sector

3.2 Propositions for the utilization of outsourcing in the public sector

The proposals for the utilization of outsourcing are a product of consultation between actors of the political leadership and the local government, as well as business executives, subject matter experts and market players

For the purpose of creating an integrated strategy the proposals outlined have been developed in consultation with stakeholders, building on best practices from international experience, adapted to the Greek public sector needs.

Strategy

- Configuration of appropriate and measurable target setting for outsourcing in the Greek public sector

Governance, roles and responsibilities

- Continuous and systematic communication with and update of stakeholders of the broader internal and external environment
- Development of a central mechanism ("Center of Excellence") to support the government in coordinating the implementation of outsourcing
- Clarification of stakeholder responsibilities and especially of the institutionalized Central Authorities

Procedures

- Standardization of tender procedures
- Standardization of contracting (SLAs)
- Standardization of costing methodologies
- Introduction of specific standards or certification (eg. ISO) as a contracting condition to service providers

Systems and technologies

- Design of an electronic support system for the Centre of Excellence
- Utilization of the National System of Electronic Public Procurement (ESIDIS)

Performance assessment – continuous improvement

- Development of measurable Key Performance Indicators (KPIs) for contracts

Organization and human resources

- Ensure appropriate organizational structure and staffing of the Centre of Excellence

Legal framework

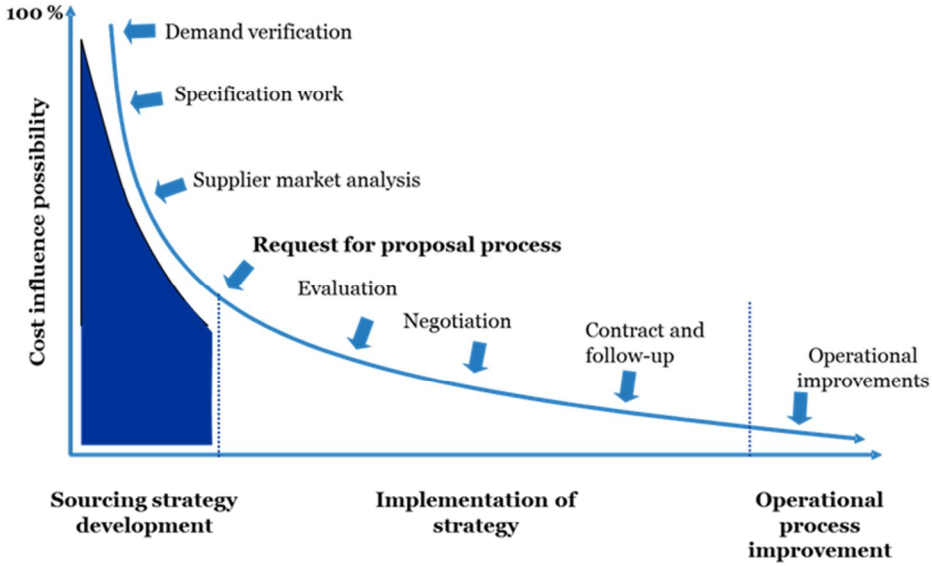
- Development of an integrated institutional framework concerning outsourcing in the Greek public sector
- Incorporation of relevant European Directives (e.g. 2014/23/EE)

3.3 Proposing a comprehensive mechanism for outsourcing implementation

The Business Environment Observatory, has the necessary knowledge and tools at its disposal to support the development of a Centre of Excellence

Following the lessons learned from international experience, the greatest benefits and at the same time, the major causes of problems that appear in outsourcing, are mostly identified in the phases preceding the contract award.

Figure 4. Impact on the total procurement cost



The responsibilities of the Outsourcing Centre of Excellence (Outsourcing CoE) can be distinguished between the following broader activities:

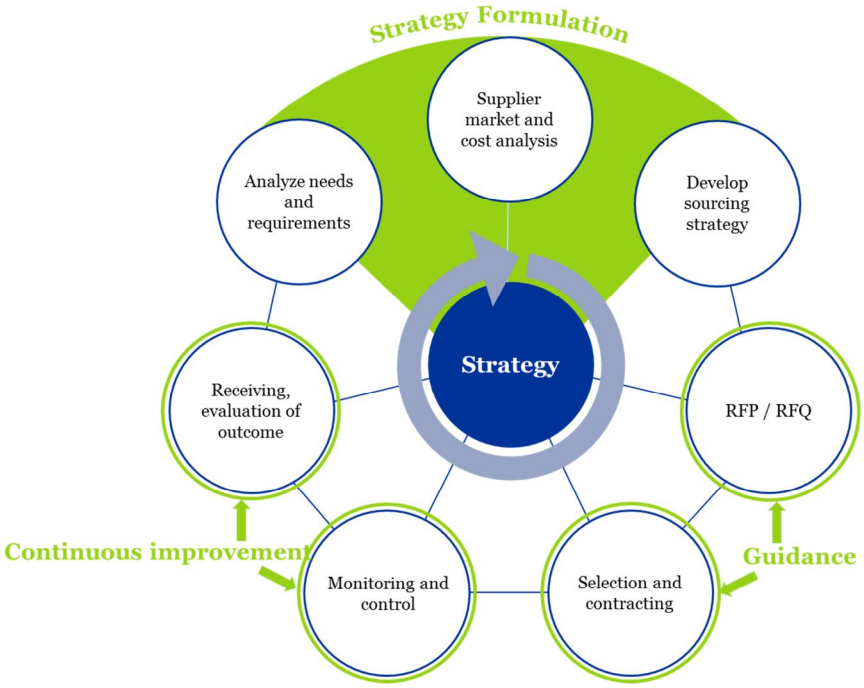
1. **Strategy formulation** for the implementation of outsourcing in the public sector per service category.

2. **Knowledge dissemination** between public entities and local government, via the development of best practice guides, consulting support and access facilitation to critical knowledge and skills.

3. **Continuous improvement** of the outsourcing system, through synergies and economies of scale achieved between public entities by sharing the contract to outsource common services.

The role of the Outsourcing CoE within the procurement cycle of a public organization is presented in the following Figure.

Figure 5. The role of Outsourcing CoE within the procurement cycle



The indicative responsibilities of the suggested Outsourcing Center of Excellence are presented in the following Figure:

Figure 6. Indicative responsibilities of Outsourcing CoE

Strategy Formulation

- Strategy formulation and **definition of expected outcomes** from outsourcing, by public organization and service category
- **Market research** and collection of information on preferred suppliers by service category
- Landscape assessment of the **internal and external environment**, by public organization and service category
- **Utilization of current best practices,** alternative methodologies and tools by service category
- Information gathering regarding regulatory or technical issues

Guidance

- **Knowledge dissemination** and insights from previous, successfully completed contracts
- **Enabling access** to skills and competences regarding outsourcing
- Communication and **integration of best practices** by service category (guidelines, toolkits)
- **Record keeping** of outsourcing contracts in data warehouses by service category (terms and conditions, duration, pricing etc.)
- Collection of external and internal **documents**, tools and contract templates

Continuous improvement

- Creation of **synergies** among different organization and public buddies (eg. neighboring municipalities/regions)
- Ensuring the development of **economies of scale** for the utilization of outsourcing across different service categories
- Monitoring and optimization of the current **portfolio of outsourcing contracts** by service category
- Proposition for the formulation of a common, **central strategy** and the reform of the **regulatory framework**, in order to increase the efficiency and effectiveness of outsourcing utilization

4 Current situation

4.1 Mapping of potential public services for outsourcing

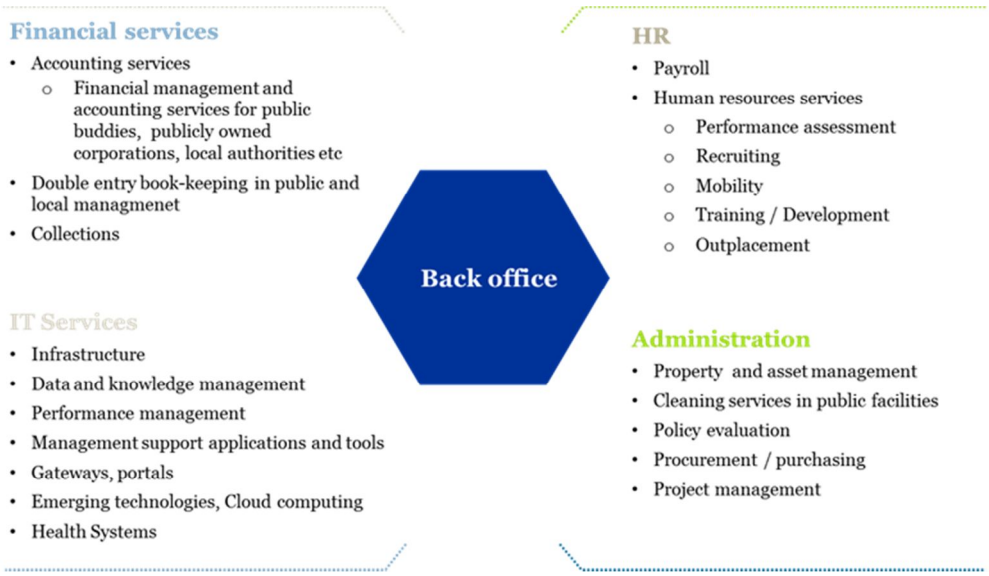
In this section, to better serve the purpose of the study, a mapping and classification framework of public entity functions is described, whereby the services provided are distinguished between front and back office, depending on the added value they bring to the public entity.

Back office

Back office describes the operations performed to serve or facilitate the production of a good, or the provision of a service, without however, addressing directly the recipients of the services or third parties

The main back office services of the Greek public sector presented schematically in Figure 7.

Figure 7. *Main back office services of the Greek public sector*

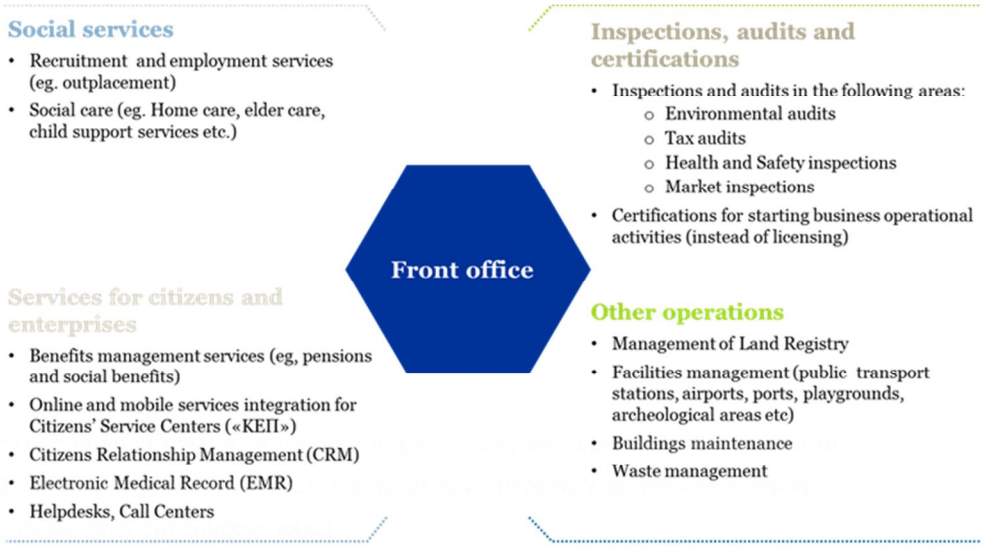


Front office

Front office refers to the company operations that directly serve the production of a good or the provision of a service (core business) and come in contact with the final recipient or third parties involved, generating revenues for the firm.

The front office services of the Greek public sector, with potential for being outsourced are depicted below:

Figure 8. *Main front office services of the Greek public sector*



5 International experience overview

5.1 Methodological approach to outsourcing

The methodology framework of the procedure to outsource a function or a service has several stages, starting with the strategic design and the delimitation of the scope of outsourcing the contract management and fulfilment.

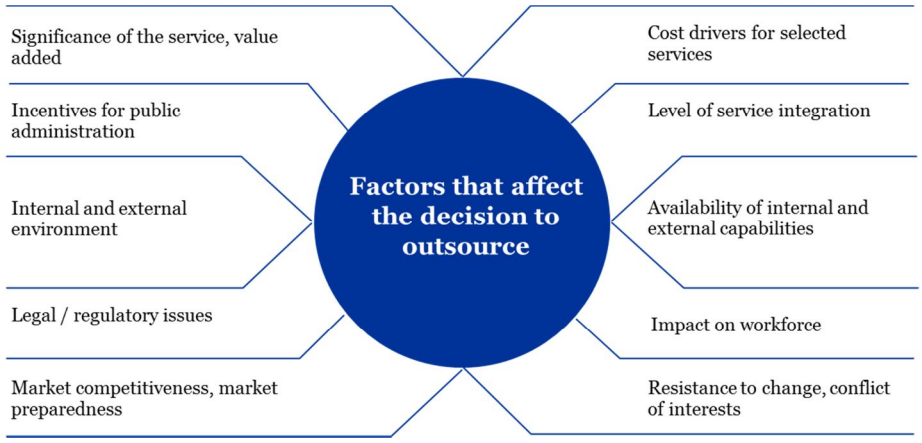
Figure 9. Methodological approach to outsourcing

5.2 Public entities and the decision to outsource

5.2.1 Factors that affect the decision to outsource

There are various factors that affect the decision to outsource. In practice, the main factors that affect this process are presented in the following Figure

Figure 10. Factors affecting the decision to outsource



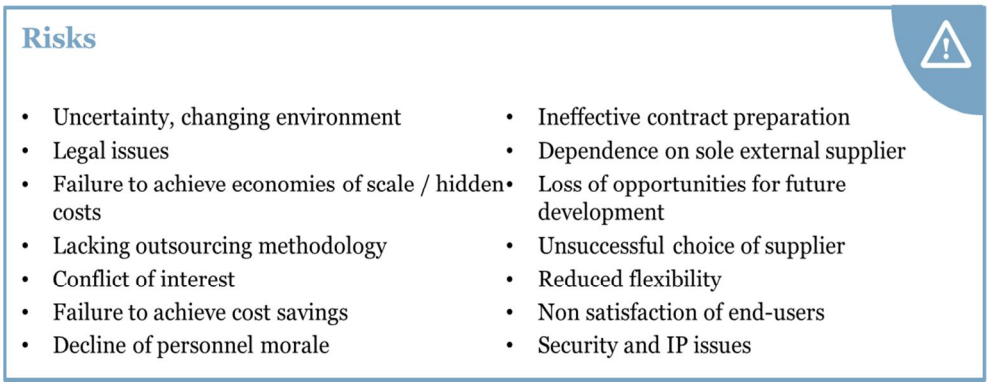
5.2.2 Risks and benefits related to outsourcing in public entities

The estimated benefits of outsourcing in public entities vary from economic, to strategic and institutional. These are further analyzed below.

Figure 11. Economic, strategic and institutional benefits

Next, follows a list of the identified risks associated to the implementation of outsourcing in public entities.

Figure 12. Risks of outsourcing in public entities

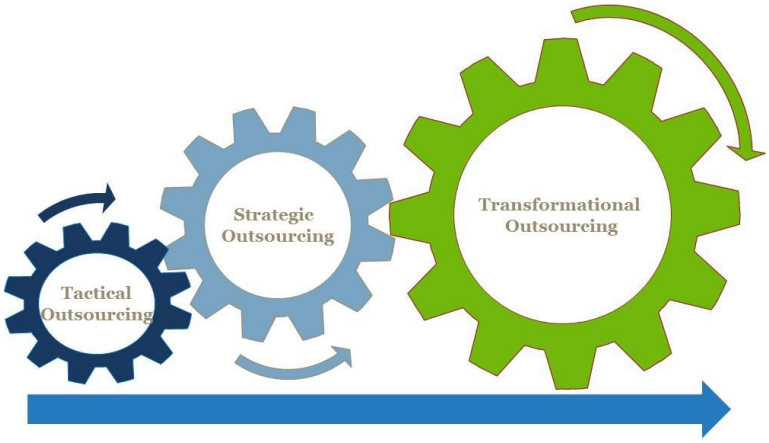


5.3 Implementation levels of outsourcing

Following the overview of international experience, based on the scope, there were three (3) levels identified in outsourcing implementation:

- Tactical outsourcing
- Strategic outsourcing
- Transformational outsourcing

Figure 13. Hierarchy of proposed interventions



Tactical Outsourcing: Tactical outsourcing concerns addressing an immediate need of the contracting body and emphasizes on the appropriate contracts conditions to ensure the effective resolution of the task at hand.

Strategic Outsourcing: At this level of outsourcing the aim is to radically change the direction and target setting of the particular service to align with the long-term strategic objectives and vision of the organisation.

Transformational Outsourcing: It involves outsourcing ongoing services that are critical to the performance of the business. Organisations in doing so, they are partnering with another company to achieve a substantial and sustainable improvement in enterprise-level performance

5.4 Alternative pricing methodologies of outsourcing contracts

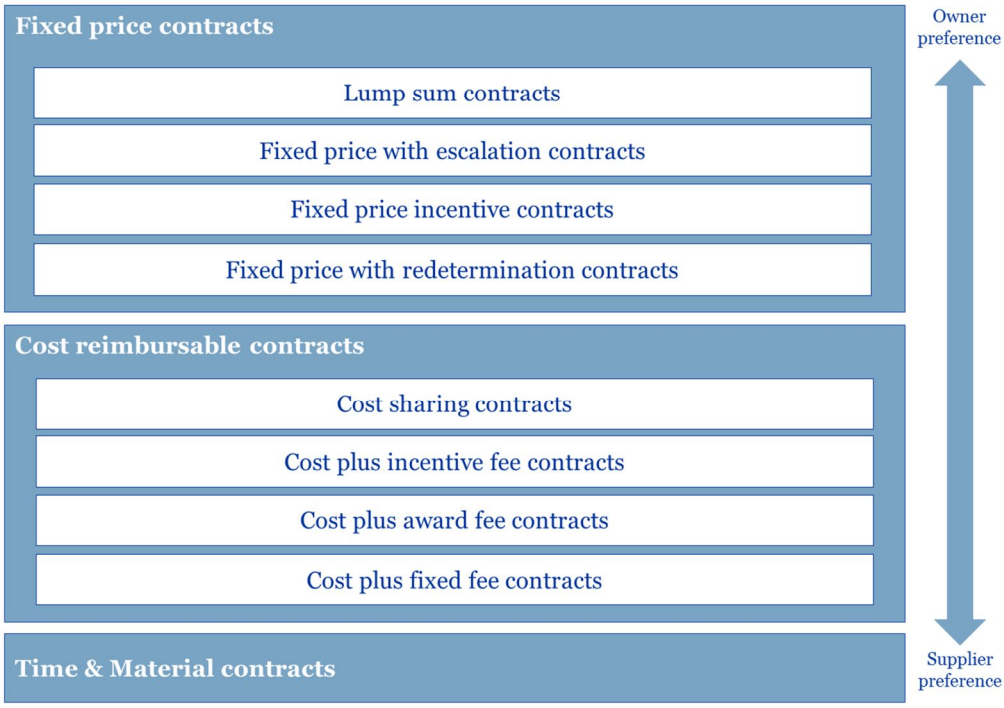
Outsourcing contracts are distinguished between two (2) categories, based on the relevant pricing methodologies used:

- **Fixed Price Contracts**: In fixed price contract agreements the two parties predetermine a standard price (lump sum) for a specific product, service or expected outcome. The buyers define the expected service levels in detail and the suppliers commit for the successful fulfillment of the contract. Therefore, fixed price contracts involve minimum risk levels for the owner of the service.

- **Cost Reimbursable Contracts**: In cost reimbursable agreements, the owner tries to estimate the various expenses involved in the in-house provision of a service and agrees to cover any possible accrued costs of the supplier. Usually in practice, cost reimbursable contracts include a predefined profit margin for the supplier. Therefore, the two parties share the potential risks that may appear during the execution of the contract.

In practice, there are also **hybrid models**, which combine characteristics of both contracting categories**,** such as, "Time and Materials".

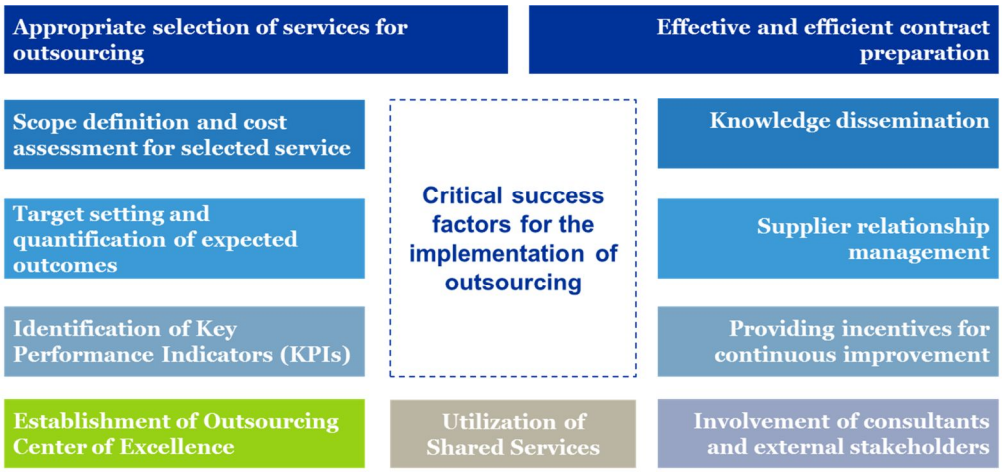
Figure 14: Pricing methodologies



6 Conclusions drawn from the current situation analysis and the international experience

The current situation analysis and international experience overview have provided valuable insight regarding the critical parameters and the **key success factors**, associated with the implementation of outsourcing. These are succinctly presented in Figure 15.

Figure 15: Critical success factors for outsourcing



The above findings constitute the best practices for the successful implementation of outsourcing, based on international experience.

These findings should be taken into account, as key success factors for the implementation of outsourcing in the Greek public sector, adjusted to the relevant needs and particularities od the Greek case and the general economic and political environment

7 Pilot implementation

7.1 Selecting pilot areas

The results of the classification and prioritization of the public services in terms of outsourcing underpin the selection of the proposed public services for outsourcing.

These include:

1. **Waste collection services**
2. **Public social services – " Help at Home"**

7.2 Waste collection services

7.2.1 Delineation of municipal waste collection services

Waste management has a direct impact on the economy, the society and the environment

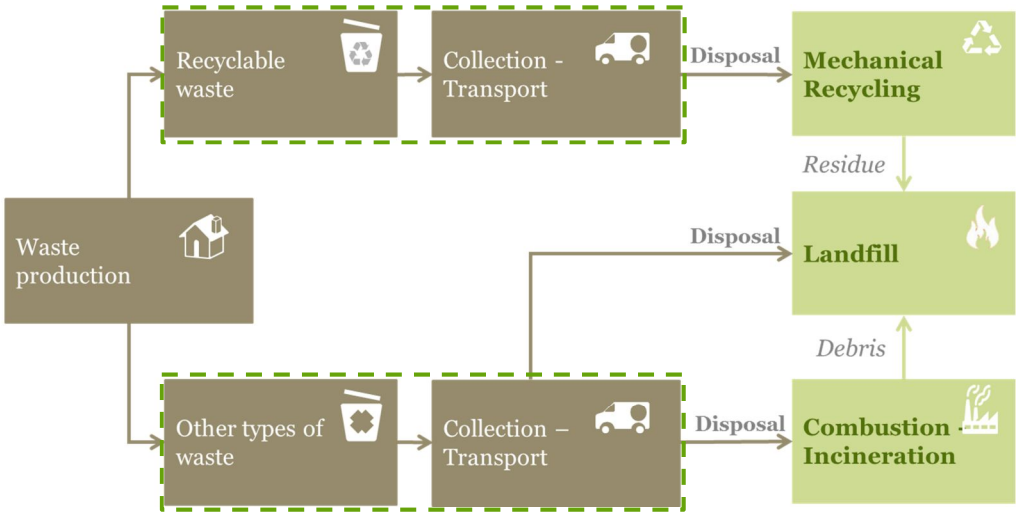
Municipal waste collection should be viewed as a system and as such, changes in one part of it will affect the system's other components as well. This is especially true, when considering at which stage waste sorting takes place. Therefore, in order to properly delineate the municipal waste collection services, we need start from the beginning; that is identifying the types of municipal waste available for collection.

More specifically, in practice municipal waste can be distinguished between three (3) main types:

- Organic / Biodegradable / Compostable waste
- Recyclable waste
- Mixed waste

The different stages of a typical waste management system are presented below.

Figure 16: Waste management system



7.2.2 Recoverability evaluation of municipal waste management services

For the purpose of estimating the recoverability of such services, the indices used to calculate the expected rates of return are the following:

1. Annual Cleaning Services cost per capita
2. Cost per kilogram of waste per capita
3. Cost per ton kilometer

The sample for the estimations was collected from two Local Government Organizations (LGOs) in Attica for the year 2013.

Indices	LGO 1	LGO 2
Total expenditure for Cleaning Services (2013)	69.150.733 €	3.972.081 €
Population (2011)	664.046	29.902
Annual Cleaning Services cost per capita	**104.1 € / citizen**	**132.8 € / citizen**
Yearly waste production per capita (kg)	404 kg	614 kg
Cost of Cleaning Services per kg of waste (per capita)	**0.26 € / kg**	**0.22 € / kg**

Some key conclusions:

- The cleaning fees received by the examined LGOs exceed the associated waste disposal costs.
- The recoverability rate (costs to revenues) is less than 100%, implying the presence of margins to improve service performance.
- The cost of Cleaning Services in LGO 1, appears to be larger. This is due to its particular urban characteristics.

7.2.3 Streamlining the process of outsourcing in municipal waste management

The most significant barriers encountered in outsourcing waste collection services are aggregately described in the following categories:

- Deficient and restrictive institutional framework
- Problems with the tendering processes and contract award and monitoring
- Absence of an appropriate performance measurement system
- Absence of an integrated waste management strategy to reduce waste production and encourage an end-to-end sustainable management
- Resistance to change

7.2.4 Proposals to streamline outsourcing of collection services

The proposals for the utilization of outsourcing the particular service are a product of consultation between actors of the political leadership and the local government, as well as business executives, subject matter experts and market players who participated in the thematic workshop organized by the Business Environment Observatory titled "Feasibility assessment of outsourcing municipal waste collection services".

Strategy

- Financing facilitation of providers and introduction of dynamic payment systems
- Stakeholder communication and awareness raising on the importance and benefits of reducing waste production
- Conclusion of long-term contracts in order to attract providers and strengthen the domestic market
- Promotion of synergies and economies of scale through intermunicipal cooperation and full utilization existing equipment

Governance, roles and responsibilities

- Enhancing the creditworthiness of Contracting Authorities, ensuring the smooth execution of contracts and timely payments
- Establishment of waste management companies registry per type of service and development and execution of project communication plan directed to local authorities

Procedures

- Introduction of specific standards or certification (eg. ISO) as a contracting condition to service providers
- Standardization of tender procedures and contract awarding for waste collection services

Performance assessment – continuous improvement

- Development of measurable Key Performance Indicators (KPIs) for contracts
- Customer satisfaction monitoring to further enhance value added services from private providers

Legal framework

- Institutional delineation of waste management services and configuration of relevant quality standards
- Standardization of documentation studies of cost efficiency and feasibility necessary for contract approval (or payment order) by the Court of Auditors
- Development of an integrated waste management legal framework and amendment of Article 61, Law 3979/2011 on documentation of failure of services provision by own means