



University of the
West of England

Strategic Sourcing in UK HEIs: Assessing the Options

Final Report

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Contents

Acknowledgements	4
Executive Summary	5
Introduction	7
Background	8
Outsourcing in UK HEIs	12
Activities suitable for outsourcing Core business activities Barriers to outsourcing	
Focal points	26
Assessing the business need Evaluating outsourcing contracts Managing and realising the benefits of outsourcing contracts Managing the transition process Developing the 'intelligent customer' Selecting the right commercial vehicle Success factors	
Strategic Sourcing Toolkit	30
Step One – Business Analysis Step Two – Opportunity Evaluation Step Three – Provider Selection Step Four – Implementation Step Five – Relationship and Performance Evaluation Intelligent Customer Function (ICF) – Capability Audit Toolkit sources	
Recommendations	42
References	43
Appendix A	44
Appendix B	46
Biographies	47

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1. Executive Summary

This report outlines the findings of a research study investigating the sourcing strategies and practices of UK Higher Education Institutions (HEIs). The fifteen month project was undertaken by Bristol Business School, University of the West of England and was funded by the Innovation Transformation Fund (ITF), an initiative supported by the Leadership Foundation for Higher Education and the Higher Education Funding Council for England (HEFCE). The project team was guided by a steering group that included members from HEFCE, ITF, Southern Universities Purchasing Consortium (SUPC) and leading practitioner and academic experts.

The research team engaged with top-level managers from UK HEIs as well as public, private and independent expert bodies to capture lessons learnt from outsourcing processes. The project findings confirm that HEIs are at an early stage of maturity in terms of working with external service providers, yet have identified the potential for a variety of sourcing models to deliver, efficiency, effectiveness and economic benefits. To succeed, strategic sourcing decisions need to be linked to the institution's mission and should identify future competitive challenges. The qualitative benefits of any sourcing arrangement must be considered and end-customer satisfaction must be on the agenda, rather than focusing primarily on cost.

At present, many HEI procurement functions lack the skills and confidence to deal with large-scale sourcing activities. Fortunately, strategic sourcing does not necessarily need to be pursued in this way – there are a variety of innovative models that HEIs can employ as either an alternative to, or as a first step towards outsourcing that can realise efficiency and effectiveness benefits. The research indicates there may be the potential for shared services, but the autonomous nature of HEIs and their differences in strategic goals currently prevent progress in this area. Due to the scale and resources required to undertake strategic sourcing (which is not undertaken on a frequent basis by the majority of HEIs), there is the potential for third party providers with understanding of the HEI sector to deliver strategic sourcing support and advice to HEIs. This could possibly be a shared service set up by several partner HEIs.

Working with the British Universities Finance Directors Group (BUFDG), the team undertook a survey to capture the views of senior executives and managers involved in sourcing decisions, resulting in the following key findings:

- Although HEIs outsource close to sixty types of outsourced services, these are almost entirely 'support services.' In large HEIs, visibility of outsourcing varies depending on the scope of roles, and the procurement function may not necessarily have access to the complete picture
- The majority of HEIs have benefited in the past from some form of outsourcing. Nearly two thirds fully outsource to private sector providers, and just under a third outsource fully or partly to public/not for profit organisations. A small number co-source with the private sector.
- There is little difference in the proportion of HEIs focusing on economic, efficiency or effectiveness benefits, with most arrangements concentrating on:
 1. Improved productivity
 2. Risk reduction
 3. Student satisfaction

- The VAT consideration was found to be a significant barrier in outsourcing to the private sector.
- Pressure from trade unions was not seen as a major obstacle to the full exploration of sourcing options.
- There is uncertainty as to whether shared services with other HEIs presents a superior sourcing option compared to outsourcing to the private sector
- Academic delivery and revenue generation were not commonly identified as areas that might benefit from strategic sourcing.

Based on the qualitative findings of the project, the research team argues that HEIs should prioritise these benefits to assist in offsetting the reduction in central government funding and improve their ability to differentiate themselves both nationally and internationally. Where there is potential for growth, collaborative sourcing models such as joint ventures may present new strategic options and help improve HEI competitiveness.

The toolkit developed by the project will support HEIs in seeking ways of securing greater efficiencies and effectiveness through developing their strategic sourcing capabilities. The project has also identified both opportunities and obstacles and looked at where benefits might best be realised. The project aims to help HEIs overcome instances of failure and support the appropriate and successful use of strategic sourcing in preparation for a period of major transition. Whilst it is clear that some HEIs have the capabilities to undertake strategic sourcing, the majority do not. Therefore, there is a need to review and assess existing capabilities across HEIs to understand what skills should be developed and what training needs to be provided if HEIs are to become the intelligent clients of the future.

2. Introduction

This report outlines the findings of a research study investigating the sourcing strategies and practices of UK Higher Education Institutions (HEIs). The fifteen month project was undertaken by Bristol Business School, University of the West of England, and was funded by the Innovation Transformation Fund (ITF), an initiative supported by the Leadership Foundation for Higher Education and the Higher Education Funding Council for England (HEFCE). The project team was guided by a steering group that included members from HEFCE, Southern Universities Purchasing Consortium (SUPC), ITF and leading practitioner and academic experts (see Appendix A for members).

The research team engaged with senior managers from UK HEIs as well as public, private and independent expert bodies, employing semi-structured interviews to capture lessons learnt from sourcing processes. The research team undertook 31 semi-structured interviews with Vice-Chancellors / Pro Vice-Chancellors, Heads of Finance and Heads of Procurement, experts from the public sector, private sector clients and service providers, as well as independent consultants (see Appendix A for a listing of participants).

Working with the British Universities Finance Directors Group (BUFDG), the team undertook a survey to capture the views of senior executives and managers involved in sourcing decisions. A total of 60 individuals responded from 57 UK Higher Education Institutions (HEIs), representing 44% of the total target population (131 HEIs). Table 1 provides a breakdown of respondents according to their institutions' mission group and business function:

Table 1 – Strategic Sourcing survey response

HEI participation by mission group	Respondent's profession
<ul style="list-style-type: none"> • 67% of Russell Group • 36% of 1994 Group • 38% of UKADIA • 11% of Million + • 46% of University Alliance • 48% of Identified Non-Aligned 	<ul style="list-style-type: none"> • 41% in Finance • 30% in Procurement • 17% in the Executive function (Vice Chancellors, their Deputies and equivalents) • 12% in other senior roles

Bringing together buyer, supplier and expert communities, further insights were generated in April 2013, through a workshop examining 'Models for Managing Sourcing', conducted in partnership with the National Outsourcing Association. Delegates included representatives from the Southern Universities Purchasing Consortium (SUPC), Tribal Education, MITIE, Capita and senior managers from UK HEIs. The project's method and outputs were presented at steering group workshops throughout 2013-2014, as well as to the Procurement Professionals Group (PPG) in January 2014, Universities UK Strategic Sourcing Conference in February 2014, and the BUFDG Annual Conference in 2014.

This report summarises the main findings of the study, drawing on material from interviews, workshops and the survey. It commences with the context of the study and presents the findings of the interviews and the survey. The final part of the report presents the Strategic Sourcing Toolkit (available from EfficiencyExchange.ac.uk) before concluding with a set of recommendations derived from the research.

3. Background

Building on the Government's Operational Efficiency Programme (HM Treasury, 2009) and work by PricewaterhouseCoopers (PwC, 2011), the Diamond Report (UUK, 2011) identified a continuum of activities through which HEIs can deliver efficiencies and support organisational change, running from simplification and standardisation at one end of the spectrum through to shared services and outsourcing at the other. Outsourcing was identified as a means to 'reduce cost and improve quality by using specialist knowledge, resources and technology that are not feasible to develop in house.' Table 2 outlines the typical motives for outsourcing identified by studies conducted by PricewaterhouseCoopers (commissioned by Universities UK), the National Outsourcing Association and the Chartered Institute for Purchasing and Supply. As the Diamond Report noted, cost reduction is a clear motivation, but there are a variety of other strategic and operations drivers.

Table 2 – Drivers for outsourcing services

Drivers for outsourcing services

- Cost reduction
- Improve quality
- Focus on core capabilities
- Access market-leading talent or expertise
- Partner to increase innovations
- Reduce time to market
- Achieve economies of scale and higher productivity
- Capital investment avoidance
- Manage complexity and stabilise environment
- Respond to changes in environment
- Leverage technology advances

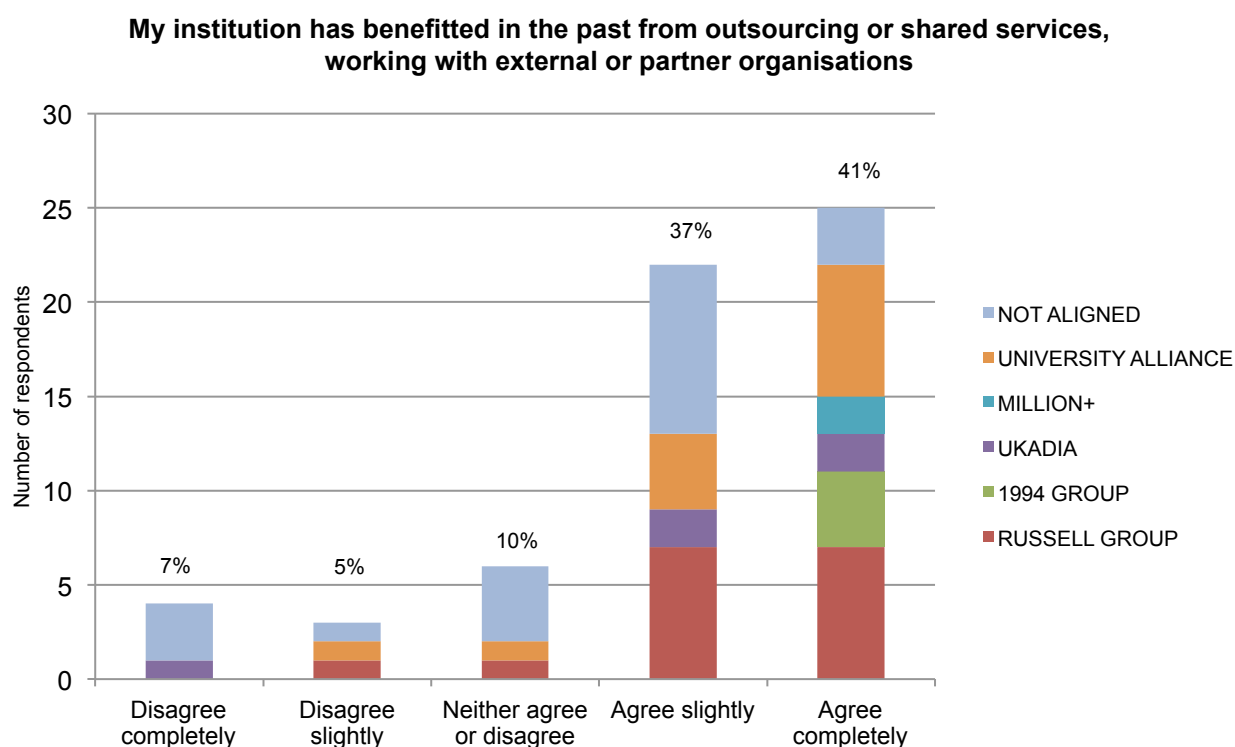
(Sources: PricewaterhouseCoopers, 2011; NOA, 2013; and CIPS 2013)

Studies by Policy Exchange (2010a; 2010b) suggest outsourcing can be successfully employed by HEIs as a means to deliver savings, with projected savings of 30% on goods and services spend. However, adoption of outsourcing across HEIs thus far has been selective and limited. Taking a sector-wide view, our research illustrates the wide range of services that are potentially in-scope and where HEIs might exploit future opportunities. According to our survey, 25% of our respondents claimed not to outsource. From our interviews, we noted that in large institutions visibility of outsourcing arrangements can vary depending on the hierarchy and scope of the activities carried out by the interviewee. We also see this when we compare our survey data with the recent survey¹ by the Universities and Colleges Employers Association (UCEA), which represents the views of HR Directors (UCEA, 2013). Thus, we argue that the number of HEIs that do not outsource is likely to be less than we found and the range of services outsourced may also be more diverse than both surveys have identified. Variations occurred between finance, procurement, executive, and commercial functions and we suspect large academic departments² may also have their own arrangements. Where HEIs did outsource, most appear to have benefitted from past outsourcing arrangements (see Figure 1). Despite the growing popularity of outsourcing, there are very few practical, prescriptive frameworks available to HEI managers faced with outsourcing decisions that go beyond the commonly found commodity type arrangements.

¹ Includes some questions on current and future outsourcing arrangements

² Not covered in this research. This is a recommended area for further investigation

Figure 1 – Survey response on benefitting from past HEI outsourcing



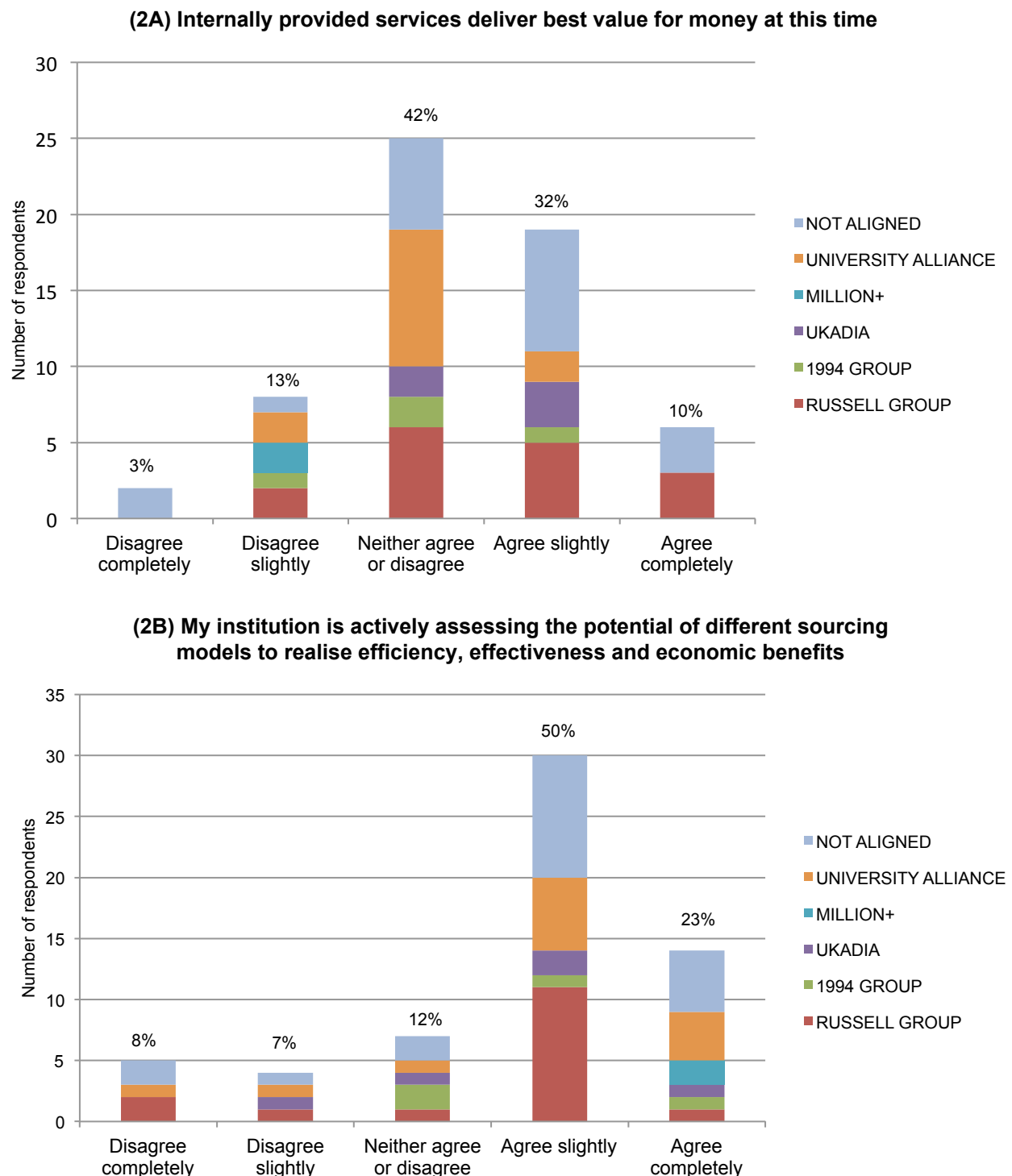
Given current funding pressures, many more UK HEIs are reviewing how internally and externally provided services meet their strategic objectives and future direction. HEI managers responsible for sourcing decisions and service performance will need to play their part in making their institutions competitive and sustainable. As well as attracting the right talent, HEIs must also develop the tools and processes for making intelligent procurement decisions.

According to research conducted in local government (APSE, 2009) there are a number of factors applicable to HEIs that might necessitate returning operations to internal control (insourcing); these might include:

- **Poor performance** – related to service outputs, user dissatisfaction, reduction in capacity, poor quality of assets, and government dictate
- **Drive for quality, synergy and value for money** – lower cost has significantly reduced quality, negative audit or benchmarking findings, reduced scope for introducing service improvements, and the importance of proximity to users
- **Strategic governance and local policy drive** – need to achieve synergy, politics, policy change, activity emerges as core, and need to improve delivery control
- **The workforce** – lack of investment, poor terms and conditions, and misalignment of values and objectives

The UK Cabinet Office (2013) points out the public sector reform debate has moved on from what was perceived as being a binary choice of either in-house or outsourced arrangements. The focus has shifted towards how to achieve superior service outcomes using fundamentally different models or ways of working in collaboration with institutional and private sector partners. Whilst other sectors such as health and defence have been rapidly implementing new business models, UK HEIs appear to be at an earlier stage of the process and are just beginning to discover the untapped benefits of implementing new 'business models' with external partners.

Figure 2 – Perceived Value for Money (VfM) of internal services and the pursuit of new sourcing models



A high percentage of HEIs appear to be unsure whether internally provided services currently provide good value for money (Figure 2A), which is consistent with the sector being at an earlier stage of learning and may also be indicative of a lack of good service performance data. The fact that only 10% ‘agree completely’ (and only a small percentage of Russell Group and Non-Aligned) suggests a need for significant change. Results in Figure 2B also suggest there is a clear appetite across the sector for exploring new sourcing models. From our interviews, an explanation of the difference between ‘agree slightly’ and ‘agree completely’ may lie in institutional barriers and the time that is required for procurement change agents to convince the stakeholders of the benefits of new sourcing models.

This project seeks to develop greater confidence within HEIs by improving the end-to-end process of making intelligent procurement decisions that result in improved business outcomes. We call this ‘**Strategic Sourcing**’ and define it as “a fact based and analytical process for optimising the supply base to ensure the achievement of the HEI’s strategic objectives. This involves the appraisal of a full spectrum of internal and external business models and strategic choices as to how HEIs can best realise economic, efficiency and effectiveness benefits.” This is distinct from the process of ‘Outsourcing’ which is the action of “contracting out of an HEI’s internal business function or process to an external organisation”. It is worth noting that ‘external’ organisations are not just private firms, they can include fully/partly HEI owned entities or even public/third sector providers.

From our workshop on ‘Models for Managing Sourcing’, delegates identified a number of contemporary strategic challenges for HEIs, these included:

- **Raising the profile of the procurement function within HEIs**
Planning and time involved in identifying and deploying the skills needed, as well as getting the right people in place
- **Improving the sourcing process**
More clarity regarding why the procurement is taking place and defining what is required. It was also important to focus on bringing competition into the process
- **Understanding the rules and adopting good practice**
Understanding where HEIs get advice from. Interpreting how EU rules work and awareness of the alternative frameworks. Assessing how the VAT burden affect sourcing options. How to apply contracting for outcomes in practice.
- **Managing culture and impact**
Overcoming differences in culture between buyer and supplier and managing the conflicts. Managing the emotional reactions in favour of a rational analysis of the pros and cons
- **Contract management**
Moving the procurement function from policing towards enabling and achieving the right balance between delivery and cost

The project findings provide a practical guide for HEIs seeking to strengthen their Strategic Sourcing capability and implement improvements to sourcing processes and decisions that will lead to the achievement of benefits that make a real impact to the core business. The concept of ‘partnership’ between service providers and HEIs is also covered in this report, as are approaches such as joint ventures and social enterprises that may present new strategic options that will help contribute to HEI competitiveness. A strategic sourcing toolkit has been developed that includes route maps, decision trees, practical exemplars and issues to be aware of and is available via www.efficiencyexchange.ac.uk.

4. Outsourcing in UK HEIs

4.1 Activities suitable for outsourcing

From interviews and the survey it is clear that outsourcing continues to be selective and limited with the focus on basic support activities such as catering, cleaning, security, facilities management, accommodation, legal services and some aspects of retail. Our survey data identified 53 different types of outsourced service and a sector average of four services outsourced for each HEI that gave us details about their arrangements. Figure 3 illustrates the range of services currently outsourced or under market testing. There is a higher concentration of outsourcing in front-line Operational Support Services and People categories. Arrangements involved primarily contracting out to a service provider (73%), followed by shared service (14%), and market testing (13%). Just over two thirds involved 'fully outsourcing to private sector', just under a third 'within the public/not for profit' and very few 'co-sourcing with private sector'.

Based on the data underpinning Figure 3, respondents also provided information about the kind of strategic benefits that were being sought from outsourced arrangements. From a sector-wide viewpoint, there appears to be a fairly even focus across efficiency (38%), effectiveness (33%) and economic (29%) type benefits. When prompted to provide more details on benefits required from arrangements, we found the following results: improved productivity (33%), risk reduction (28%), student satisfaction (25%), academic delivery (8%) and revenue generation (6%). The higher emphasis on efficiency type benefits may be due to a high percentage of arrangements within the Operational Support Services category as illustrated in Figure 3.

At present, many HEI procurement functions lack the skills and confidence to deal with more complex sourcing activities. Where they exist we found they involved technology-based projects and outsourcing of business processes overseas. Our findings show a marked difference in willingness and/or ability for HEIs to engage in outsourcing and relates to the outsourcing learning curve (see Figure 4) developed by Wilcocks et al. (2011). The Phase One, hype and fear, relates to organisations embarking on their first steps into outsourcing where organisations either place too much faith in supplier firms and consultants or envisage the worst case scenario, often propounded by negative publicity. Phase Two is occupied by the early adopters whose focus is primarily on cost and is often accompanied by a baptism of hard learning. By Phase Three, organisations have had some experience of outsourcing and are capable of managing contracts, having ensured they have retained sufficient internal capabilities to successfully steer their relationship with the supplier. Phase Four involves more collaborative leadership by the client organisation and a focus on acquiring value from the relationship.

Figure 3 – Survey data within our Strategic Sourcing Maturity Framework tool, original framework modified from DIS (2005)

Inputs	Support services			Academic delivery		
	Leadership & Planning (5%)	Professional Services (34%)	Operational Support Services (58%)	Knowledge Creation	Knowledge Sharing (3%)	Knowledge Utilisation
People (36%)		International student recruitment UK undergrad applications Careers services Counselling Data analysis Pension administration Marketing – photography Parts of human resources	Cleaning Hospitality catering & platters Catering Student support Fire risk management Payroll Health and safety		Pathway centre for overseas students International teaching delivery Some teaching	
Infrastructure (26%)	Project mgt of major builds	Shared campus FM and academic services Maintenance management Facilities management Estates/building maintenance 2 PFI buildings	Halls/student accommodation Grounds maintenance or landscaping Library services Heating and cooling contract Lift maintenance Sports facility			
Equipment/ICT (13%)		Website development Data centres Desktop provision IT and AV	Print management Invoice receipt and scanning Student email/calendar Out of hours IT helpdesk			
Enablers (25%)	Internal Audit	Finance – tax advice Electrical contractors Energy procurement Real estate advisory Rating services Legal services UCAS Insurance	Nursery services Student transport Security Recycling OC/health service Retail			

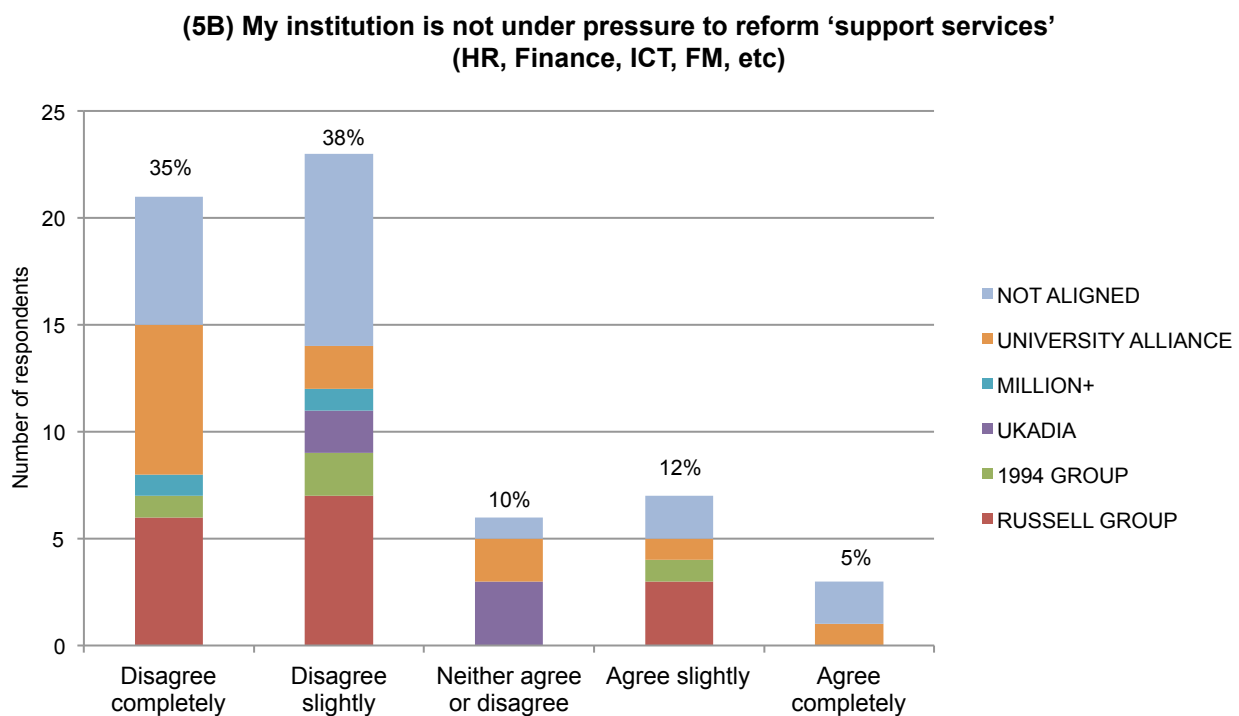
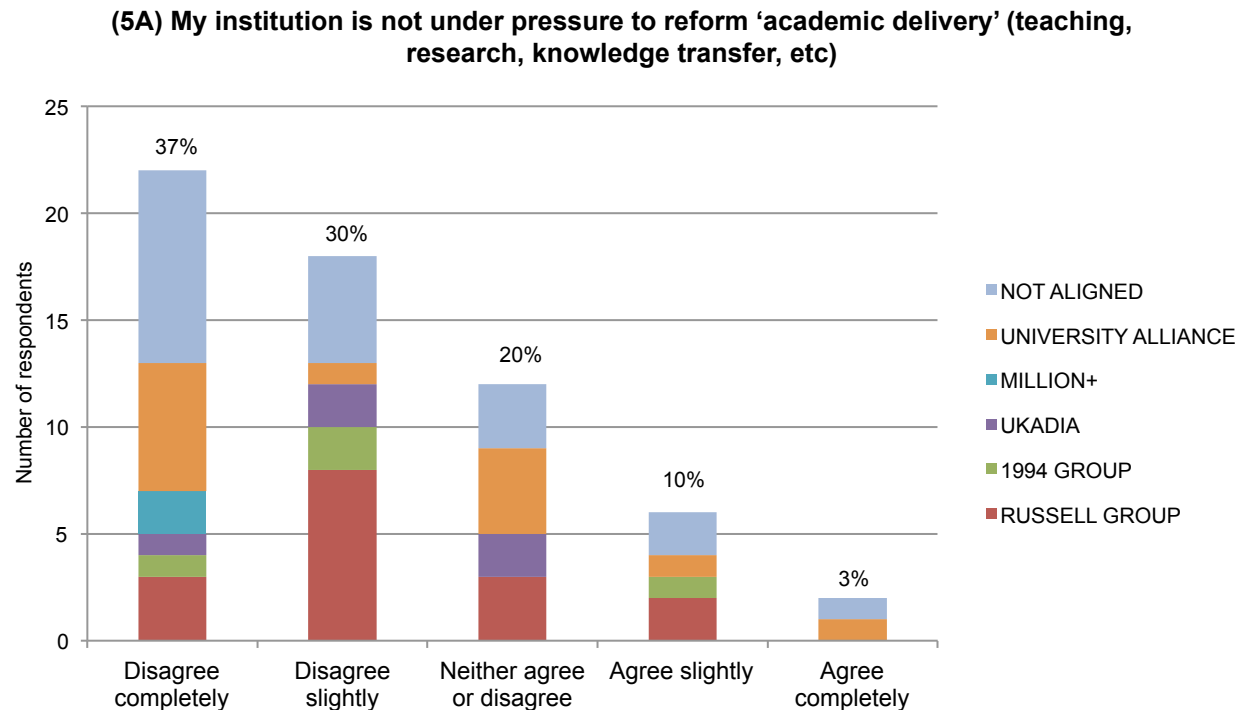
Figure 4 – HEIs and the outsourcing learning curve (adapted from Willcocks et al., 2011)



Our empirical observations put most institutions in Phases One and Two of the outsourcing learning curve in Figure 4. The majority appear to be in a position of uncertainty, with interviewees identifying an unwillingness by their governing bodies to go any further down the outsourcing route until they had increased evidence of other HEIs not only embarking on outsourcing, but also demonstrating tangible benefits. Recent high profile coverage on moves towards outsourcing arrangements has done little to promote confidence in the sector, reinforcing the “fear” aspect of Phase One. Many HEIs appear to be waiting until the negative publicity has died down and the practice of outsourcing is more commonplace in the HE sector with best practice models emerging. Some HEIs appeared to have moved into Phase Two, but have still retained much of their in-house capabilities. Very few HEIs have been involved in enough outsourcing arrangements to develop the experience and expertise required to reach Phase Three. We have not found any evidence of HEIs reaching Phase Four.

Building on results shown in Figures 2 and 5, in the near future we expect to see HEIs exploring more mature Strategic Sourcing options within ‘support services’ and anticipate increasing examples of how innovative services and partnerships will help differentiate HEIs’ offerings within ‘academic delivery’. Interviews with sector experts and practitioners argue that there are untapped opportunities to implement new business models to address the reform that is needed. Furthermore, rather than seeing outsourcing as a vehicle for reducing cost, it was suggested it should be seen as a means for competing for fee-paying students, particularly from overseas; and professionalising rather than subsidising services, which can lead to new income streams.

Figure 5 – Survey responses on pressures to reform academic delivery and support services



Using our Strategic Sourcing Maturity Framework tool, Figure 6 further illustrates where outsourcing has taken place using existing documented case examples in UK HEIs.

Figure 6 – Documented HEI activities outsourced in the UK (Policy Exchange, 2010b; Universities UK, 2014; and interviews)

Inputs	Support services			Academic delivery		
	Leadership & Planning	Professional Services	Operational Support Services	Knowledge Creation	Knowledge Sharing	Knowledge Utilisation
People					UWE – Marketing Institute Singapore (Partnering)	Imperial College London – Imperial Innovations (Wholly Owned Subsidiary) Cambridge University – Cambridge Enterprise Limited (Wholly Owned Subsidiary)
Infrastructure		University of Northampton, Estates and FM (HEI Social Enterprise) KUSCO – Kingston University Service Company Ltd, FM (Wholly Owned Subsidiary) UWE – MITIE, FM (Contract)	Manchester Student Homes (Shared Service) University of Exeter – UPP, Accommodation and FM (Partnering) UNITE, Accommodation and FM (Partnering) Sodexo, Catering and FM (Performance contract) University of Roehampton – Compass, catering (contract)		UK Research Reserve (Subscription)	University of Hertfordshire BioPark – Exemplas (Partnering)
		Falmouth-Exeter Plus, FM and Campus Services (Shared Service)				
Equipment / ICT		University of Warwick – Tribal, Health Sector Placements Management (Partnership)	University of Birmingham – WPM Education, Online Payment System (Contract) Leeds Metropolitan University – Google, Staff and Student Email (Contract) Kings College London – SCC, ICT Transformation and Support (Contract)			
		Middlesex University – Quscient, bulk processing and helpdesk activities (Offshore Contracts)				
Enablers	Kingston City Group, Internal Audit (Shared Service/ Cost Sharing Group)		University of Hertfordshire – Uno, Bus Services (Wholly Owned Subsidiary) University of Surrey – Arriva, Bus Services (contract)			

From our interview with a strategy consultancy, their review of historical developments in US HEIs suggests a historic focus on support services (1970s-80s) and more recently and increasing focus on academic delivery (1990s-today). Support services include marketing and recruitment, finance and accounting, human resources, information systems management, document and data storage, and financial aid and student loans. Academic delivery includes teaching, course development, and online platforms. One area of mutual discovery appears to be the blurry line between academic delivery and support services. Some support services provide more direct assistance to core functions than others, the impact of which must be analysed before any changes are implemented.


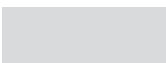
Whilst new 'Shared Services' continue to being developed, many are well established and have delivering services to HEIs for some time, these include Eduserv, EDINA, MIMAS, UCAS, SUMS, JANET, Jobs.ac.uk, the purchasing consortia, the energy consortium, and the UM Group (Clark et al, 2011). There are also a variety of examples of hosted services for administrative services (HR/payroll service, and out-of-hours student helpdesk), teaching and learning (Blackboard), research (GridPP) and data centres (University of London Computer Centre). We asked the question "In terms of academic service delivery, what are the top 1-3 challenges your institution will face in the next 10 years?" (For the full results, see Appendix B). From a total HE sector perspective, the survey indicated the following top three areas:

- 1) Improving teaching delivery,
- 2) Improving student engagement and satisfaction,
- 3) Enhancing ICT (includes innovation in teaching and learning)

These priorities are common across mission groups, although University Alliance managers also gave importance to 'general operational performance and quality', Non-Aligned managers to 'national and international competition', and Russell Group to recruitment and retention of high calibre staff.

Figure 7 – Core business and areas open to Strategic Sourcing review

Inputs	Support services			Academic delivery		
	Leadership & Planning	Professional Services	Operational Services	Knowledge Creation	Knowledge Sharing	Knowledge Utilisation
People						
Infrastructure						
Equipment / ICT						
Enablers						

 Areas core to most HEIs
  Theoretically, areas open to Strategic Sourcing review

Whilst Figure 7 presents a model of how a fully outsourced HEI might look, some institutions interviewed believed some student-oriented ‘support services’ must be kept in-house. Others were less inclined to consider such activities as core, but instead assessed activities in relation to their impact on the student experience. This was particularly prevalent in those HEIs that felt that they had a pastoral duty of care for their students and as a result ruled out the outsourcing of traditional support services (e.g. accommodation and catering).

One HEI based its decision on which activities were core or non-core on three criteria:

1. Is it safe to outsource? Would it be unsafe to outsource if the loss of direct control would present a serious risk to the university
2. Is it sensible to outsource? Do the benefits outweigh the disadvantages?
3. Is it economic to outsource? Are the costs of the service going to deliver sufficient savings to make it worthwhile without a commensurate loss in quality, or conversely, can the service be outsourced at no additional cost but deliver additional benefits (e.g. improved quality, innovation)?

One interviewee highlighted the need to break services down to the granular level – services that might not be traditionally outsourced could potentially be broken down into different activities, with some offering potential for outsourcing. For example, although many HEIs may be hesitant to outsource any service related to student support, the breaking up of support services could create pockets of activities that could be delivered by an external provider (e.g. careers advice, postgraduate admissions). We recommend using the Strategic Sourcing Maturity Framework tool (see 6.1 Step One – Business Analysis) as the starting point for a review of the organisation and its services.

HEIs that were further along the outsourcing learning curve indicated that in theory, any activities outside the strategic functions, for example corporate, policy, strategic planning and strategic HR could potentially be delivered by external providers. These HEIs were also challenging the notion of academic provision as a core activity, indicating that some key areas could be outsourced to private providers. It was evident that several HEIs had undertaken partnership arrangements with private providers for the delivery of courses in overseas markets. Interestingly, a private sector HEI pointed out that they undertook virtually no outsourcing and saw academic provision as a core activity.

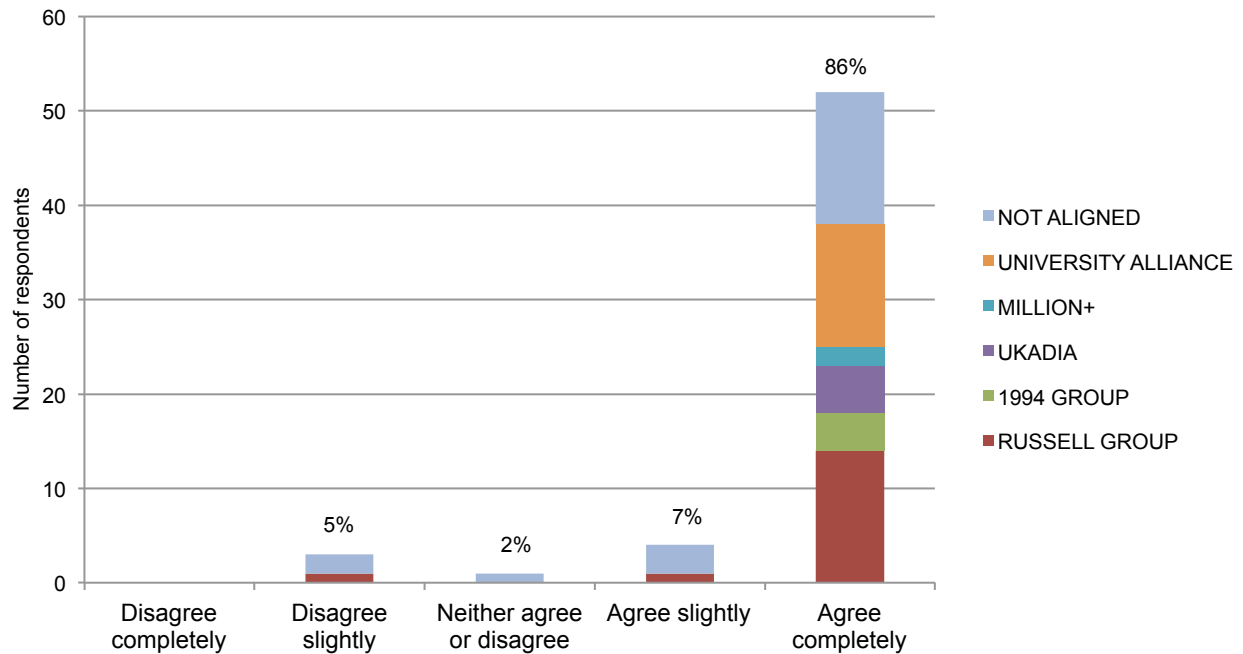
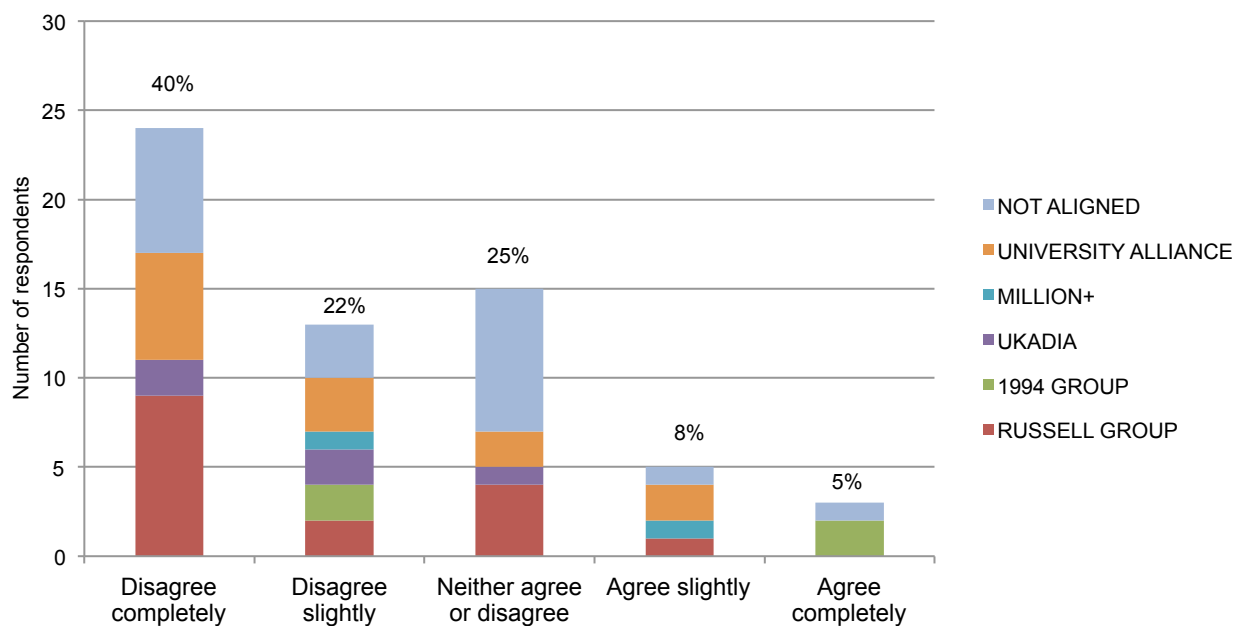
4.2 Core business activities

As might be expected the majority of HEIs identified, both in the survey and interviews, academic delivery, (encompassing research and teaching³) as a core business activity (see Figure 8A). The outsourcing of teaching provision, specifically in the short to medium term, appears to be slightly less clear cut (see Figure 8B).

Other areas considered as ‘core business’ included social responsibility – “social responsibility is the third core goal” (Russell Group respondent) and support to local enterprise and community issues. In our communications with a senior executive (non-survey participant), it was pointed out that “We have a commercialisation strategy, under which we actively seek out opportunities for generating revenues and value from our skills, expertise, facilities”. When carrying out a Strategic Sourcing review, it is suggested that HEIs should incorporate other strategic priorities and existing capabilities beyond research and teaching to ensure they are considered when weighing up sourcing options and choice of service provider.

³ Two Non-Aligned respondents that did not agree completely on the basis that they focused on teaching and did not undertake research.

Figure 8 – Survey responses on core business in HEIs

(8A) The core business of my institution is research and teaching**(8B) Outsourcing aspects of teaching provision is likely to take place in the short to medium term for my institution**

In addition to mission groups, HEIs have also recently created regional groupings (e.g. GW4, N8, M5), where within the academic delivery space there will be more pooling of resources (infrastructure and equipment), talent (postgraduate research centres), technology procurement and potentially new capital investment projects. Whilst traditionally, all boxes within the academic delivery space displayed in Figure 7 are provided internally, in the long-term HEIs may instead retain key staff and outsource aspects of research, teaching and learning, and technology transfer and commercialisation. Therefore, we envisage opportunities from external providers to offer innovative proposals to enhance technology and infrastructure to attract new students, improve flexibility, and enhance the teaching and learning experience. The other areas likely to be retained include the corporate and functional leadership and planning teams, which maintain an internal intelligent customer decision-making capability. We have adapted an industry tool (Intelligent Customer Function tool – see section 6.6) for use in the HE sector to assist with carrying out a gap analysis of current and future desired capability.

4.3 Barriers to outsourcing

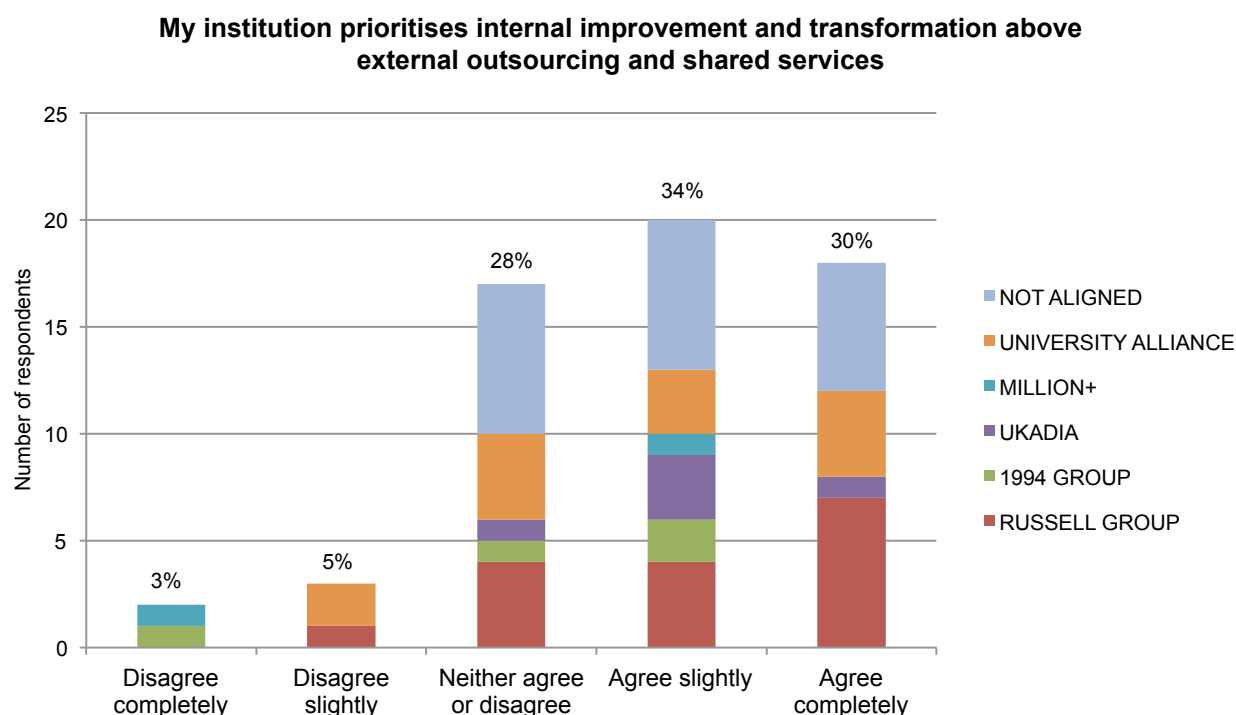
Many perceived barriers to outsourcing are common to HEIs and the public and private sector. We narrowed our focus to eight which are highly pertinent to the HE sector, namely: cultural issues, lack of expertise, union opposition, politics and power, staff morale, location, VAT and legislation.

4.3.1 Cultural issues – many HEIs cited a fear of change as endemic amongst academic institutions (although non-HEIs also cited the same issue). Despite dissatisfaction with current arrangements and the desire to explore new approaches (Figure 2), some HEIs are currently perpetuating the status quo. Where outsourcing was being considered or had taken place, there was also the challenge of overcoming a clash of cultures, particularly for HEI staff transferring into a new organisation; even more so if it concerned a private sector provider.

Interviews with private sectors firms at the mature ‘Phase Four’ position in Figure 4 revealed a more proactive approach, conducting regular reviews of organisational performance and assessing the value of various sourcing options. In this respect, they cited less institutional resistance to intelligent sourcing decisions relative to those organisations in less mature positions. Where a viable business case could be made, and if the core business was not negatively affected, external options were fully considered alongside internal options.

A Russell Group survey respondent commented: “The debate about sourcing has become very political with outsourcing firms actively lobbying government at every opportunity. The fact is we can do very efficient insourcing with the right management and approach and we save the VAT...” Findings in Figure 9 show that the majority of HEIs prioritise internal improvement and transformation over external options. In such environments, those responsible for making sourcing decisions may be institutionally restricted by their stakeholders, which may result in lost opportunities. On the other hand, in instances where internal improvement and transformation are valid and strategic, there are still opportunities to consider what an independent (yet HEI owned or part owned) entity could deliver (e.g. a subsidiary or social enterprise) (see section 6.3).

Figure 9 – Survey response on extent of institutional preferences

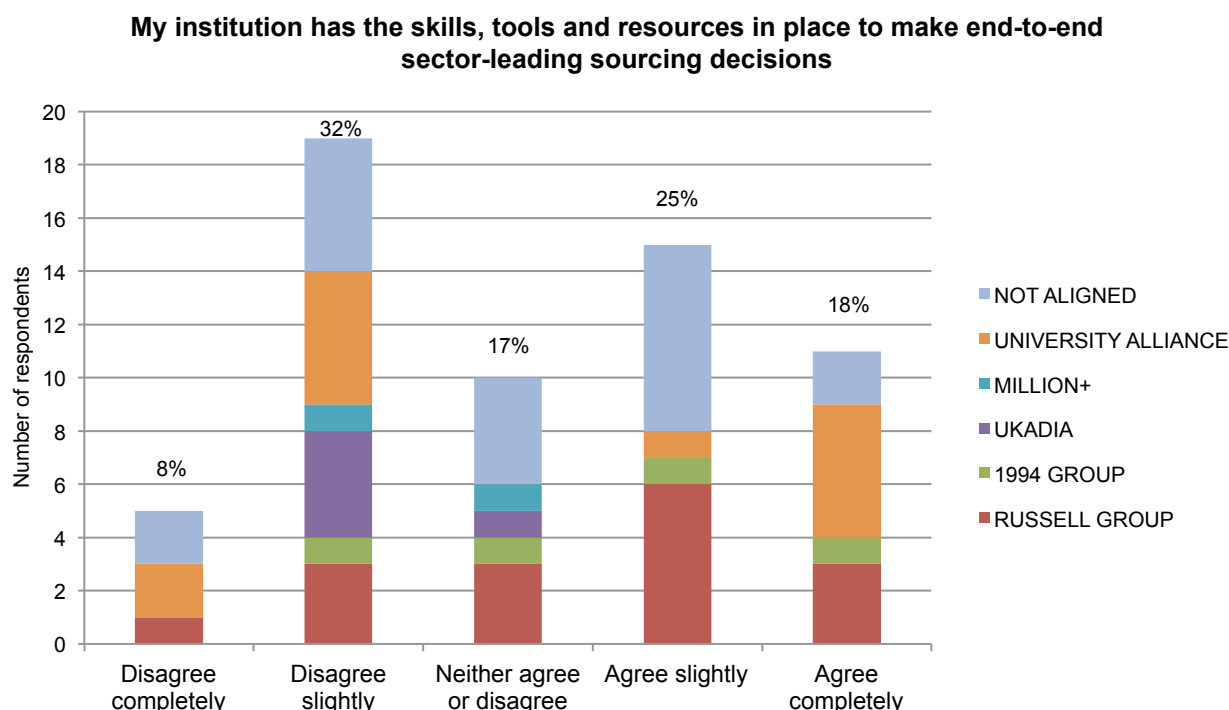


4.3.2 Lack of expertise – the scale and complexity of the outsourcing process overwhelms many HEIs, particularly for those working with large private providers who regularly deal with such contracts, in contrast to the sporadic basis experienced by most HEIs. It was felt that many HEIs lacked the resource, time and expertise to undertake outsourcing contracts and consequently were intimidated and overwhelmed by the process.

However, we also noted some HEIs we interviewed had recently hired procurement managers with significant private sector expertise. Recent practitioner and academic research argues the case for those involved in procurement decisions to raise the profile of the profession, by demonstrating through practice and evidence the competitive benefits that can be derived from a more strategic approach. This will provide the corporate centre with a case for investing in a Strategic Sourcing capability.

In Figure 10, responses to whether their institutions had the skills, tools and resources in place to make end-to-end sector-leading sourcing decisions suggest HEIs still need to make the necessary investments in strategic sourcing capabilities, if they are to realise benefits over the long term. Interestingly, finance professionals within Russell Group and Non-Aligned HEIs were less certain than their colleagues in procurement who tended to agree with the question. In contrast both procurement and senior executives from University Alliance HEIs were more inclined to disagree slightly.

Figure 10 – Survey response on current Strategic Sourcing capabilities

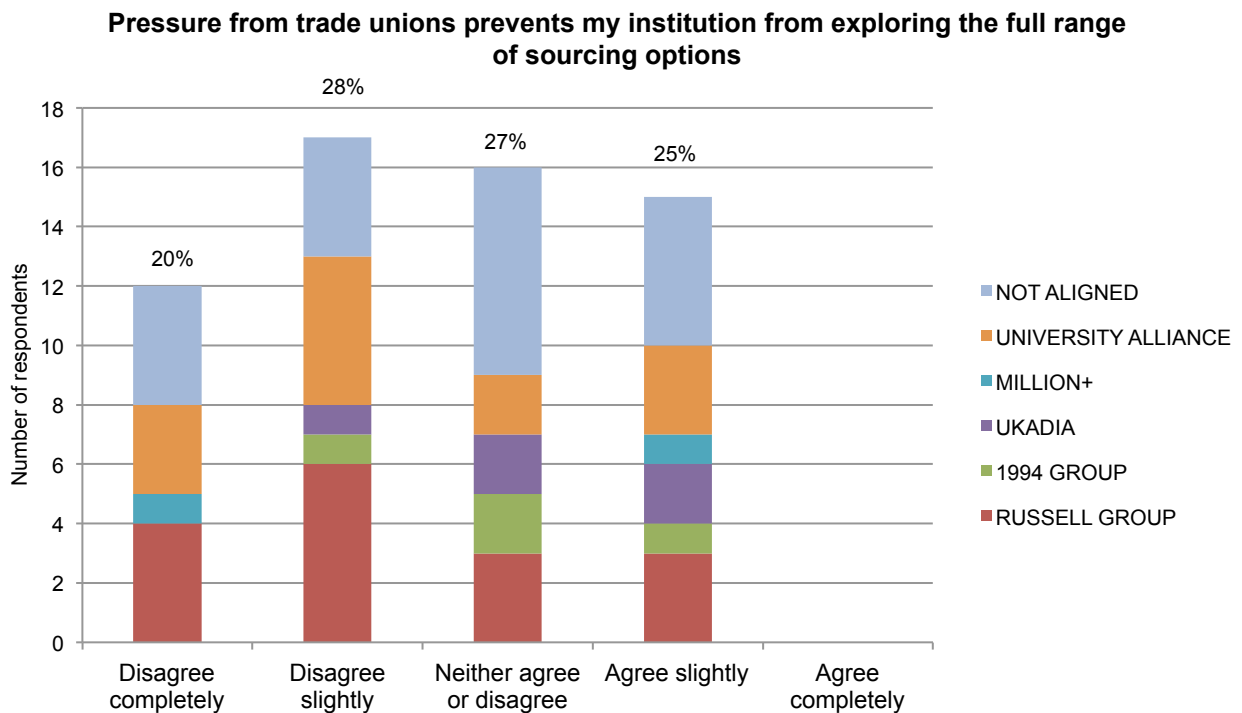


As Figure 10 demonstrates, no mission group stood out as strongly agreeing or disagreeing with the question. Where respondents have indicated agreement with the question we suspect that, for many, this is an optimistic perception, going against what we have discovered from the interviews and workshops. Furthermore, we also noted that over a quarter of the HEIs in agreement with the question indicated that they did not currently outsource, which suggests they may not actually have sector-leading capabilities. Of the remainder, those that did outsource had the experience of outsourcing services above the sector average: those who 'agreed completely' averaged 5.6 services outsourced and those that 'agreed slightly' averaged 4.3. Some respondents who personally or institutionally had a good record of outsourcing experience (relative to sector institutions) still answered conservatively to this question.

HEI participation in initiatives such as the Higher Education Procurement Academy (www.HEPA.ac.uk) will assist in developing the procurement capabilities of HEIs. The development of a tailored commercial / procurement skills framework for larger teams, similar to those found in experienced public and private sector institutions, would also help identify areas for development and investment.

4.3.3 Union opposition – this was cited by several HEIs as a significant barrier, not only in terms of union influence on staff, but also in terms of the union's ability to frighten off potential suppliers. High profile media cases in UK HEIs appear to have mobilised unions to take a more active position against outsourcing. Interestingly, our survey results found that only 25% 'agreed slightly' and nobody 'agreed completely' that pressure from trade unions prevented their institution from exploring the full range of sourcing options (see Figure 11). As we also discovered from our engagements with sector managers and potential suppliers, many HEIs do not want to be associated with the negative publicity and appear to waiting to see how current developments play out before proceeding further.

Figure 11 – Survey response on trade unions and sourcing options



4.3.4 Politics and power – this was cited by some HEIs as a barrier to outsourcing. Without corporate level support it was difficult to proceed with outsourcing, even if clear benefits could be demonstrated. Whilst Figure 12A presents a mixed picture, just over half believe that Strategic Sourcing is fully considered and appropriately represented at the highest level. Interestingly, a Russell Group survey respondent stated “I am unsure the true meaning of ‘strategic sourcing’ happens anywhere across the sector”. From our in-depth interviews, we also think considerable investment into strategic sourcing still needs to be made (across the sector) and this can be more fully assessed using our Intelligent Customer Function (ICF) assessment tool (see section 6.6).

Both our survey and interview findings (see Figure 12B) indicate that sourcing decisions are not always centralised. This may work better politically for some HEIs, yet raises important questions around duplication of effort, pooling of expertise and sharing of experience.

4.3.5 Staff morale – the potential impact on staff morale was cited by several HEIs as a barrier to outsourcing in terms of perceptions of outsourcing, particularly in terms of the threat to job security, potential changes in terms and conditions and the transfer of pensions.

Figure 12 - Survey response on consideration and representation of strategic sourcing

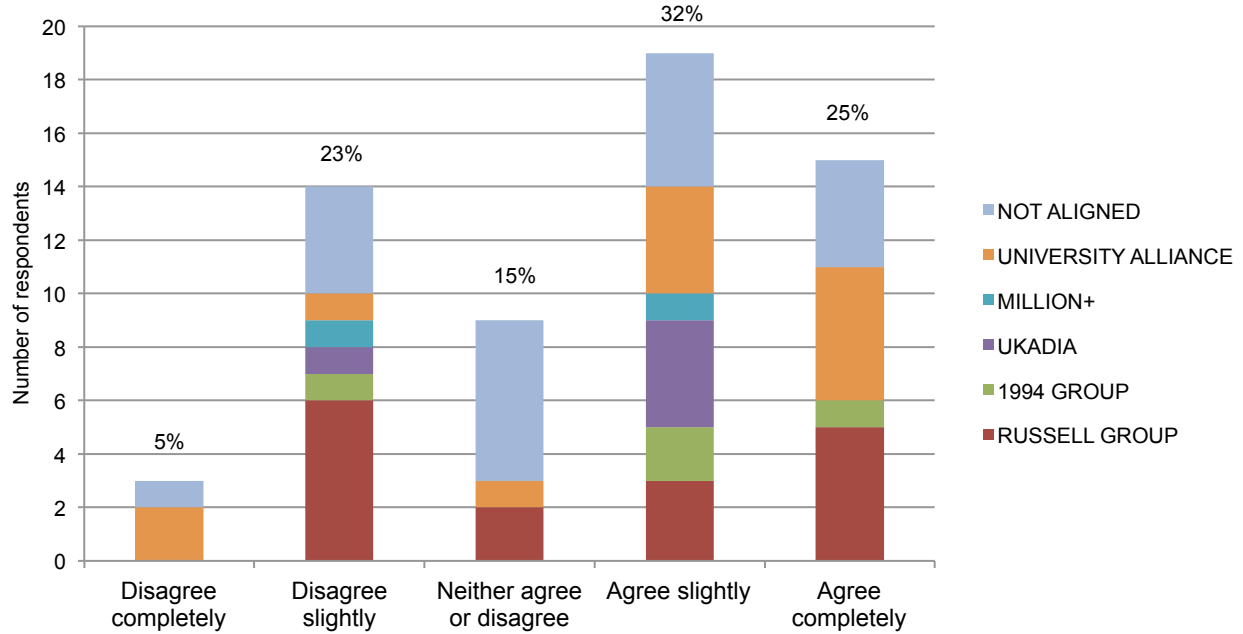
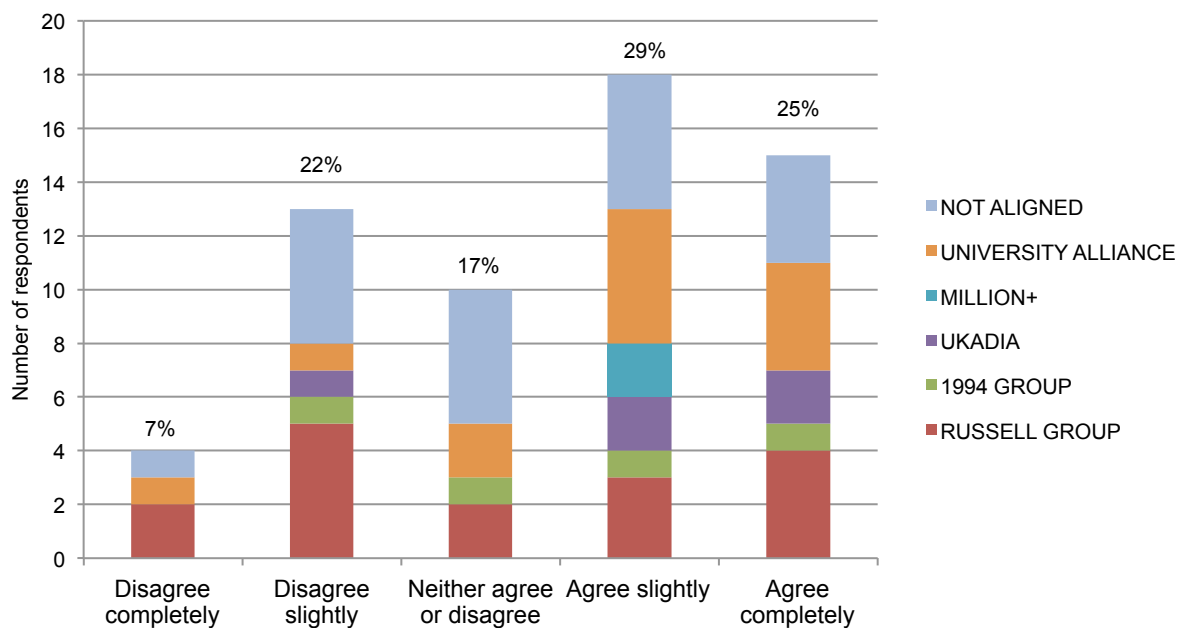
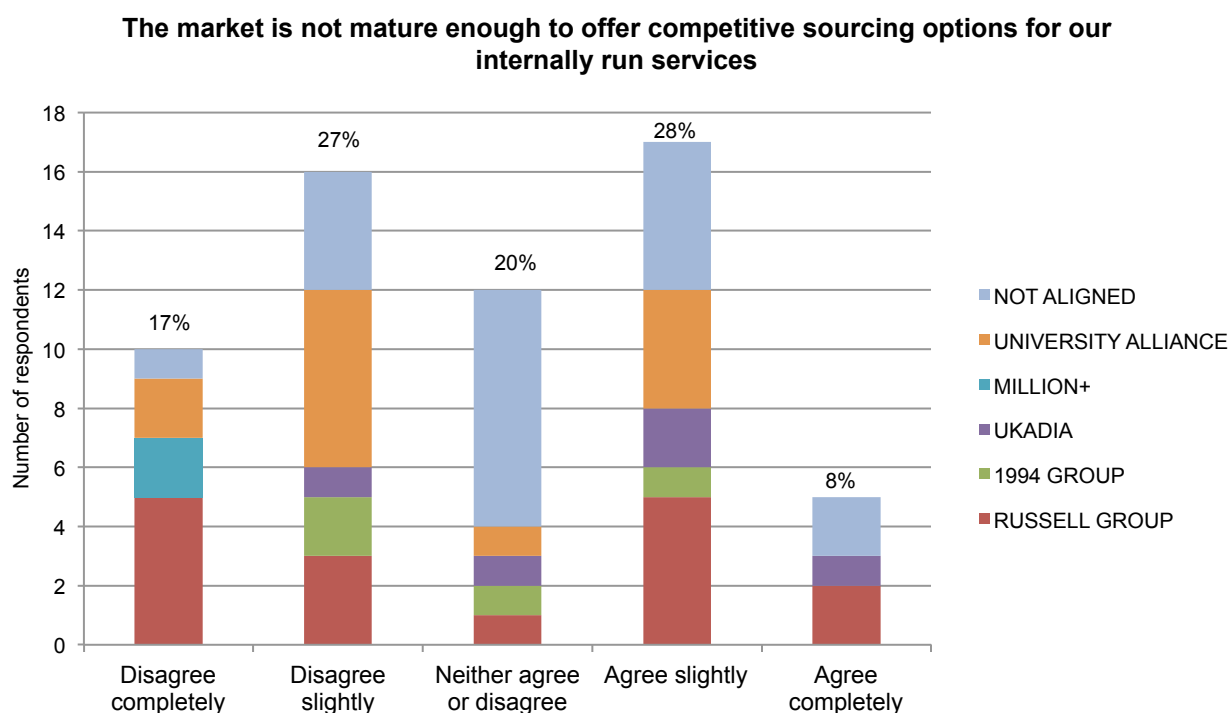
(12A) Strategic sourcing is fully considered and appropriately represented at the highest level in my institution**(12B) My institution's sourcing decisions are centralised and have visibility over all major procurement life cycle activities across departments**

Figure 13 – Market maturity for outsourced and shared HEI services

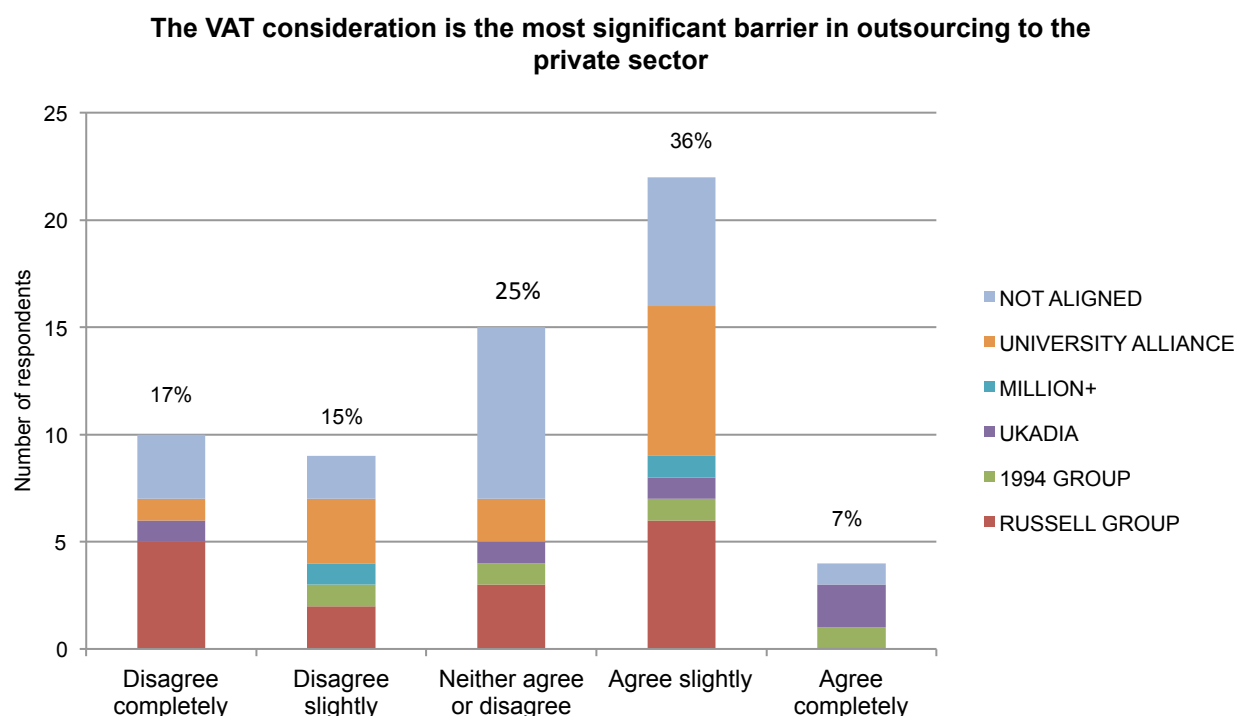


4.3.6 Location – the location of some HEIs was seen as a major barrier to both shared services and other forms of outsourcing. Those located in or near big cities such as London and Birmingham were more interested in collaboration and could source suppliers more easily as well as leverage on the competition between suppliers. Those located further away from the South East and central England not only found it difficult to persuade suppliers to operate in their region, but also, as the major employer in the region, felt a moral obligation to engage with local suppliers. Results presented in Figure 13 may represent this mixed picture, yet a significant percentage indicated that market maturity was a slight issue rather than a major one.

4.3.7 Value Added Tax (VAT) – the overall picture indicates that the VAT issue is an important factor, although clearly not insurmountable (see Figure 14). From our interviews, this was seen as a major obstacle to working with private sector providers. Cost-sharing groups were seen as a positive way of working with external partners. However, it was only seen to be cost effective when dealing with public sector partners. The 20% VAT not only deterred HEIs from working with private providers but also deterred some providers when they realised their business model would not work in this context.

4.3.8 Legislation – some HEIs cited legislation as a barrier, particularly with respect to equal opportunities. One HEI was deterred from the outsourcing route for catering and cleaning as many private providers employ mainly female staff which may be perceived as disadvantaging male workers. Furthermore, some HEIs had experienced equal pay claims following transfer, when existing staff realised they were on lower rates of pay than the transferred staff.

Figure 14 – VAT and the private sector



5. Focal points

5.1 Assessing the business need

The majority of HEIs stated they did not undertake a formal process for assessing the business need for outsourcing. This contrasted to non-HEI participants who generally indicated they used formal processes to identify which activities could be outsourced. Often HEIs followed their own internal business case to verify the feasibility of outsourcing. HEIs suggested that they were limited and reactive in their approach to assessment and could require support in this area. Some HEIs had employed the services of independent consultants to undertake a feasibility study, although they acknowledged difficulties in calculating savings as there was no direct reference for some HEI back office processes (e.g. registry). Our interviews revealed that in assessing the business need, the following steps should be undertaken:

- Assess the scope of activity under analysis (identify the boundaries)
- Conduct a full financial analysis
- Produce a robust business case and expected levels of service (what needs to be included, what is optional). The systemic impact on the organisation also needs to be considered
- Test the market
- Establish the actual return should the contract be outsourced.

5.2 Evaluating outsourcing contracts

Despite the importance of evaluating outsourcing decisions, very few HEIs undertook a formal process to evaluate their outsourcing contracts (e.g. Return on Management – ROM, or information economics) and most tended to use cost analyses. Many interviewees (including non-HEIs) considered approaches such as reviews and formal meetings as constituting an evaluation process and that the contract control mechanisms specified in the contract represented evaluation methodologies.

Most of the HEIs stated that since they have to follow the Official Journal of the European Union (OJEU) guidelines, they tended not to adopt a formal evaluation methodology. OJEU was perceived as a help and a hindrance. It was seen as beneficial in providing a mechanism and framework, offering very clear assessment criteria and very clear objectives, but also it was considered to be bureaucratic, cumbersome and time-consuming. As a result, some HEIs had moved towards longer term contracts as a means of avoiding going through the OJEU process as frequently. Other HEIs suggested the OJEU process stifled competition, as the time and cost involved acted as a major deterrent to suppliers.

5.3 Managing and realising the benefits of outsourcing contracts

From our interviews we found that very few organisations adopt a formal benefits realisation process. Although formal processes such as Active Benefit Realisation (ABR) exist, none of the organisations interviewed indicated they used any techniques to identify or manage the benefits. Several HEIs admitted that they employed independent consultants to assess the benefits that could be achieved through outsourcing, since they did not have the resources or skills to undertake such an exercise. Representatives from other public sector organisations endorsed the use of independent consultants in measuring the benefits realised. This is to overcome the risk of overemphasising the benefits and to justify and verify any moves the client organisation has made towards outsourcing.

Again there was a strong reliance on contract control mechanisms such as KPIs, but as other studies have found (e.g. Remenyi et al, 1997; Lin et al, 2007), the low uptake of benefits realisation approaches is not uncommon and is familiar across both public and private sectors. The main difference is that public sector organisations are more likely to focus on intangible benefits, which was evident during our interviews. For example many HEIs identified the need to include direct benefits such as student and staff experience and indirect benefits such as student employability, student scholarships and student internships that may be offered by the supplier.

5.4 Managing the transition process

Our evidence base suggests the transition process requires strong leadership, the involvement of the client organisation's HR department, transparency and regular communication. Obvious concerns related to ensuring suitable terms and conditions were in place and Transfer of Undertakings (Protection of Employment) (TUPE). However, the majority of HEIs interviews implied the process had gone smoothly, and that this was due to the expertise of the new service provider. Interviewees emphasised the need to work with providers with experience in this area to ensure a smooth transition process.

Non-HEIs emphasised the need to retain an understanding of outsourced activities in order to retain the capability to evaluate and manage the contract and question the external service provider when necessary. They also emphasised the risk of losing the intellectual understanding of the activities they outsourced, which in the long term could contribute towards loss of control of the contract and ultimately the loss of the organisation's identity.

5.5 Developing the 'intelligent customer'

Throughout the interviews and the workshops held during the project, it was evident that at present, HEI procurement functions lack the skills and confidence to deal with large-scale sourcing activities. Although expertise could be sought from independent consultants, it was recognised that there is often a poor transfer of knowledge, perpetuating the lack of relevant skills and expertise

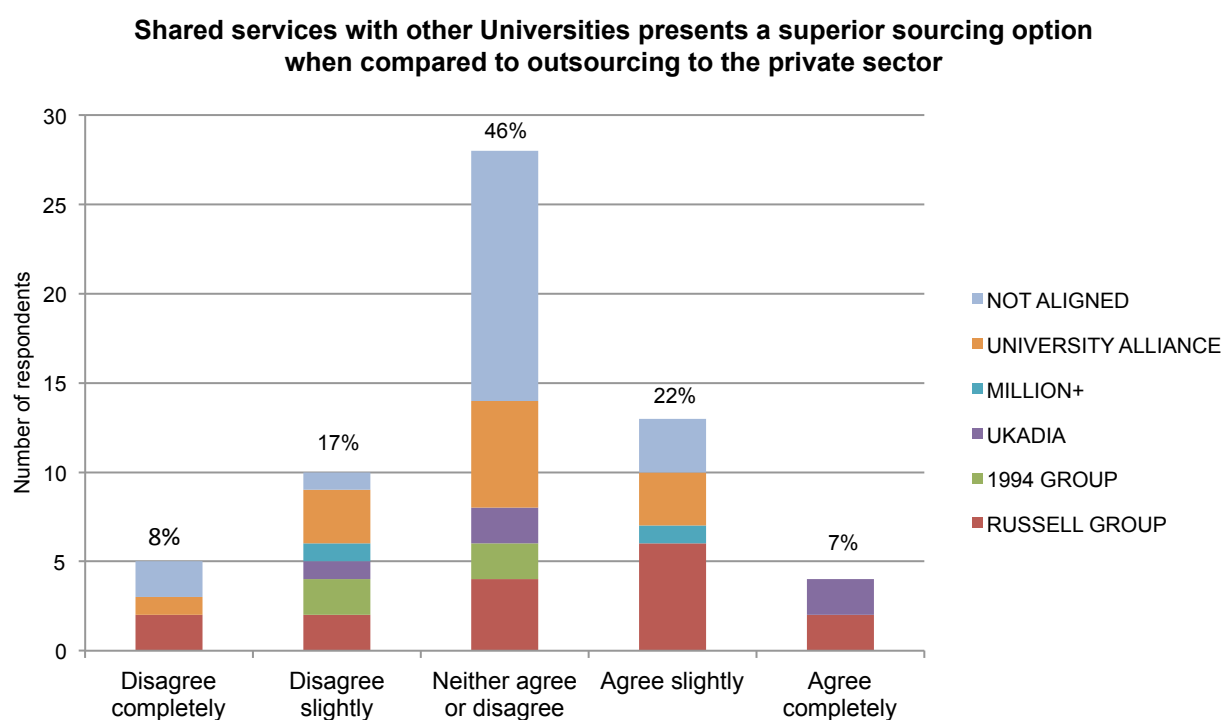
within the client organisation. Discussions with both HEIs and representatives from the public and private sectors highlighted the need to develop an 'intelligent customer' capability that enables and empowers HEIs to undertake and embark on strategic sourcing decisions and avoid an over-reliance on external support. Based on the interviews the intelligent customer/client requires the following skill-set:

- The capability to sign contracts and provide technical monitoring
- Retention of in-house expertise of the services being delivered
- Relationship management capability (stakeholders and suppliers)
- The ability to manage expectations (avoiding conflicts with staff and students)
- The capacity to facilitate changing behaviours (buy-in) inside the HEI organisation so that benefits can be realised
- The ability to overcome cultural barriers to change
- Flexibility to support evolving, learning and adapting during the change process
- The ability to write a good set of requirements and a good contract – these are crucial to acquiring the right services.

5.6 Selecting the right commercial vehicle

A range of commercial vehicles were highlighted and discussed throughout the project, including shared services, joint ventures, partnerships and social enterprises and we have captured and presented these in our Strategic Sourcing Toolkit (see Section 6). Some key discussions with sector experts and practitioners highlighted the value of 'joint ventures' as a vehicle for revenue generation, particularly in the case of more complex services. Where there is potential for growth, a joint venture would offer the HEI with an opportunity to access any equity gains; with both parties having ownership there is also an incentive for the arrangement to work as each partner has the potential to achieve dividends.

Figure 15 – Views on shared services with HEIs vs. outsourcing to private sector



From our survey data in Figure 15, there is clearly some uncertainty as to the potential of shared services with other HEIs versus outsourcing to the private sector. Interviews suggested shared services were perceived as a more risky venture and time consuming to set-up. Shared services were seen to need top-level commitment and the objectives and expectations of the parties involved should be clearly defined from the outset. 'Ownership' was seen to be a significant challenge aligned with the risk of each University wanting to be the major power controlling and directing the service, which could ultimately lead to failure.

5.7 Success factors

Based on our interviews with senior HEI managers, suppliers and experts, the following critical success factors must be considered before entering into the implementation stage:

1. **Outsource the right activities** – some processes are better managed in house, especially those that contribute towards differentiation against competing HEIs
2. **Understand the drivers** – why are you outsourcing, what are the outcomes that you expect to achieve in terms of cost, quality, and innovation?
3. **Clearly define HEI goals and requirements at the beginning** – review and refocus processes against the core business. Also, time invested upfront can reduce problems later on
4. **Good communication** – disseminate the rationale for outsourcing both externally and internally to build enthusiasm and avoid generating fear and pessimism
5. **Good governance** – ensures arrangements are in place to establish and maintain formal processes for managing the customer-supplier relationship – risk allocation must be right and staff treated fairly
6. **Ensure the qualitative benefits are measured and captured** – focus should be not simply on cost
7. **Good relationship management** – work on the behaviours, set up regular meetings to pre-empt problems and ensure clear communication between parties
8. **Focus on the customer** – ensure customer perception and satisfaction is on the agenda (staff, students, parents, local industry, etc.)
9. **Incentivise the contract** – (e.g. extended term, bonuses, and repeat work). Benefits gained should be widely communicated and incentives should be chosen wisely, wrong incentives drive negative behaviours
10. **Develop flexibility in the contract** – this allow for changes in the business environment and plan for continuity or an exit strategy after contract end date (e.g. long term incentives, insource)

6. Strategic Sourcing Toolkit

This section is designed to provide support to managers seeking to implement a Strategic Sourcing capability in their institutions.

There are two main parts: the first provides a life cycle process framework with tools to be used at each of the main stages of the process and the second is an audit tool to assess the maturity of current Intelligent Customer Function (ICF) capabilities (policy, skills, systems and processes).

The complete toolkit in its usable form is available online through Universities UK Efficiency Exchange (www.efficiencyexchange.ac.uk).

Strategic Sourcing Life Cycle Process Framework: The framework as illustrated in Figure 16 has been designed for use in Higher Education Institutions (HEIs) and is based on materials and insights from sourcing experts and HE sector expertise. It contains tools designed to assist with important aspects of strategic decision-making at different stages of the sourcing life cycle.

Figure 16 – A sourcing framework for HEIs



The framework in Figure 16 presents a cycle from initiation to five major steps, from early stage strategic analysis, through to engagement with internal/ external suppliers, transition and relationship management. Whilst the process should ideally be followed in a linear sequence, it is also possible to start with establishing proof of concept in a later step (e.g. assessing the capability of providers) before investing time in up-front analysis.

However, although there is a cost associated with following the linear approach which must be weighed against the value of the opportunity, past experience and lessons learnt dictate that HEIs will benefit in the long-run by carrying out robust up-front business analysis (Step One) before undertaking later steps in the strategic sourcing process.

As a generic tool applicable to all HEIs, some institutions may wish to use the life cycle framework as a starting point for designing their own internal version, which requires further steps or processes to follow within or in addition to steps 1-5.

The following subsections provide a set of tools that can be applied at specific life cycle steps 1-5. It is worth noting however, that the tools found in 6.1 and 6.4 can be used in other stages (6.1 in later steps, and 6.4 in earlier steps).

6.1 Step One – Business Analysis

The Sourcing Maturity Framework (SMF) in Figure 17 provides a powerful visual tool⁴ for mapping the complete spectrum of Higher Education Institutions (HEIs) operational functions and services. This will allow senior leaders to establish historical performance, distinguish core and non-core activities, and identify interrelationships between activities⁵. This is valuable for the next stage of identifying opportunities for improvement.

Figure 17 – Sourcing Maturity Framework for HEIs

Inputs	Support services			Academic delivery		
	Leadership & Planning	Professional Services	Operational Support Services	Knowledge Creation	Knowledge Sharing	Knowledge Utilisation
People						
Infrastructure						
Equipment						
Enablers						

⁴ Modified from Ministry of Defence (2005) Defence Industrial Strategy White Paper, illustrating the evolution of industry involvement in activities traditionally run by the MoD

⁵ Interviews with experts and experienced organisations revealed the importance of these assessments early in the process (e.g. 'make or buy' decisions are linked to business capability and results)

The horizontal categories in the SMF extend from the executive function right through to producing academic outcomes. Along this axis (from left to right) are the (I) leadership & planning (corporate), (II) professional services (back office), (III) operational services (front line), (IV) knowledge creation (research), (V) knowledge sharing (teaching), and (VI) knowledge utilisation (application/ commercialisation). The vertical axis provides four major input categories for assets and resources. Figure 18 provides a real case example of an HEI's sourcing arrangements mapped to the SMF.

Figure 18 – University Alliance HEI, SMF case example, 2013

Inputs	Support services			Academic delivery		
	Leadership & Planning	Professional Services	Operational Support Services	Knowledge Creation	Knowledge Sharing	Knowledge Utilisation
People			Catering & Cleaning (Private provider complements in-house)		International Teaching Delivery (Shared service)	
Infrastructure		Energy Procurement (Shared service)	Recycling (Public sector service provider)			
		Estates, Maint, FM (Private service provider)				
Equipment		Data Centre (Share service within public sector)				
Enablers		Project Mgt of Major Build (Buy-in expertise)	Security (Private provider)			



Emerging Outsourcing



Currently Outsourced

In large institutions, such as the example presented in Figure 18, senior leaders should include heads of functions and departments in a 'mapping exercise' (e.g. large printed SMF with post-it notes) to create a representative snapshot of the organisations major sourcing 'activities'. Given the dispersal of sourcing knowledge in HEIs, full participation is needed to develop a complete picture of activities across the organisation. This can include discussion around the following information:

- The history of the activity (always in-house, recent investment, new technology, insourced, outsourced, performance)
- The types business model adopted for each activity, lessons learnt from successful models and need for change
- Potential market testing of current activities
- Potential of strategic initiatives with external partners to enhance knowledge creation, sharing and utilisation

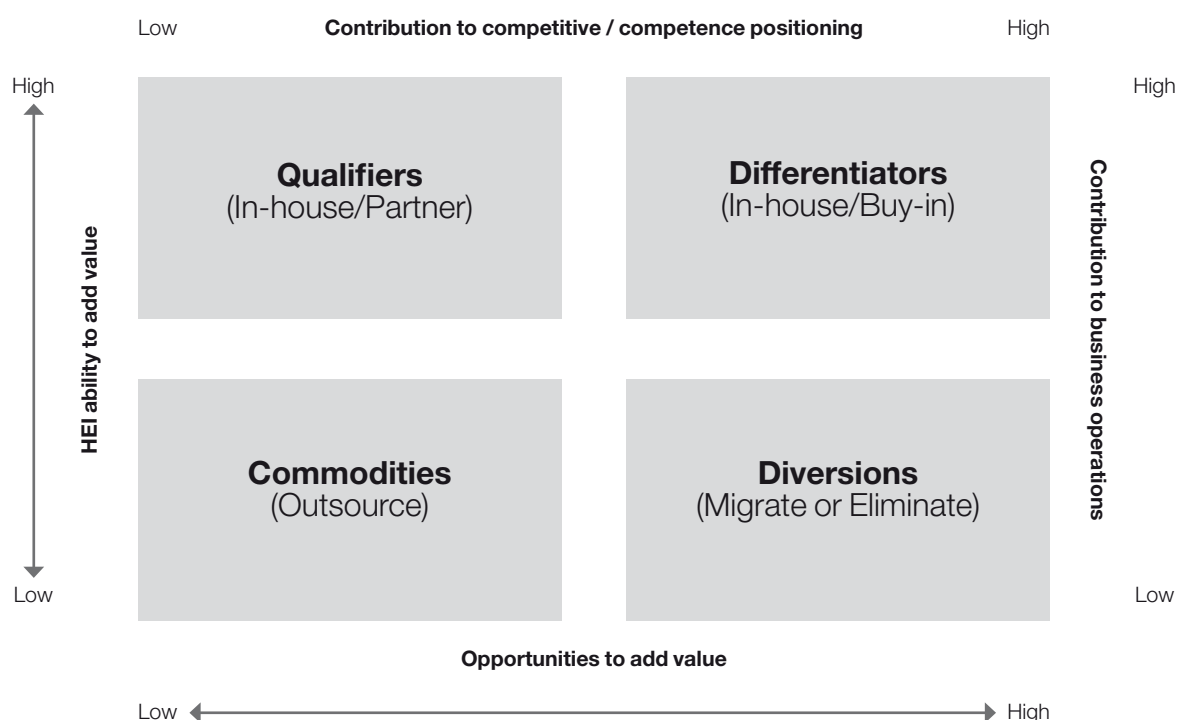
This tool can be used in combination with the Sourcing Activity Matrix (SAM) in Step Two, to assess the strategic importance of each activity to the HEI.

6.2 Step Two – Opportunity Evaluation

Higher Education Institutions (HEIs) can use the **Sourcing Activity Matrix (SAM)** in Figure 19 to carry out a high level critique of operational functions and services, which can inform subsequent strategic sourcing decisions. Senior leaders should consider how HEI activities identified in the Business Analysis (Step One) stage can be assessed against the following:

- Fit with the institution's identity, values, and strategic objectives
- Contribution to business operations and the institution's ability to add value (vertical axis)
- Contribution to competitive / competence positioning and opportunities to add value (horizontal axis).

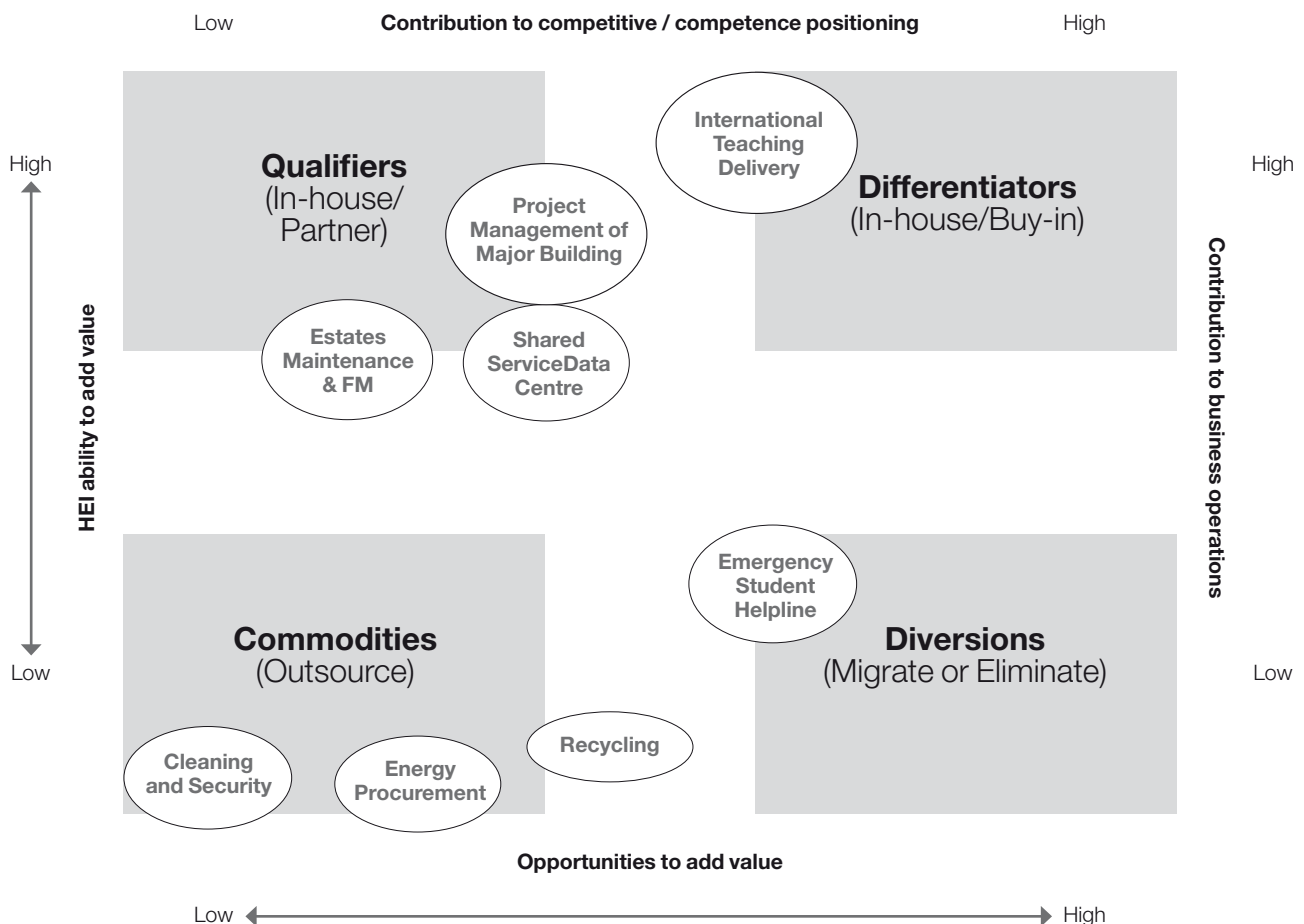
Figure 19 – Sourcing Activity Matrix



Activities should be positioned in one of four categories, each of which has different sourcing implications:

- **Commodities** – activities that are necessary, but rarely contribute towards the HEI's competitive position (e.g. parking, basic IT support, and cleaning).
- **Qualifiers** – activities that must be undertaken in order to operate in the HEI sector, but provide limited competitive advantage to the HEI, i.e. they do not help significantly to distinguish one HEI from another (e.g. student support services, online learning management systems).
- **Differentiators** – activities essential to the running of the HEI, contributing significantly towards its competitive position (e.g. teaching and research). This may vary significantly from HEI to HEI. Some institutions regarded 'accommodation' as a key differentiator where it is perceived to be a determining factor during a student's (and her/his parents) selection process. One particular institution's commitment to pastoral care resulted in an in-house provision of catering outlets to ensure 24-7 service.
- **Diversions** – activities that may have been undertaken unsuccessfully to distinguish the HEI from its competitors. As illustrated in Figure 20, the HEI implemented a health emergency helpline to its students since its reputation for pastoral care was considered a differentiator. However, it was discovered to be rarely used and high cost versus the free NHS Direct service (now 111) offering a comparable level of support.

Figure 20 – University Alliance HEI, SAM case example, 2013

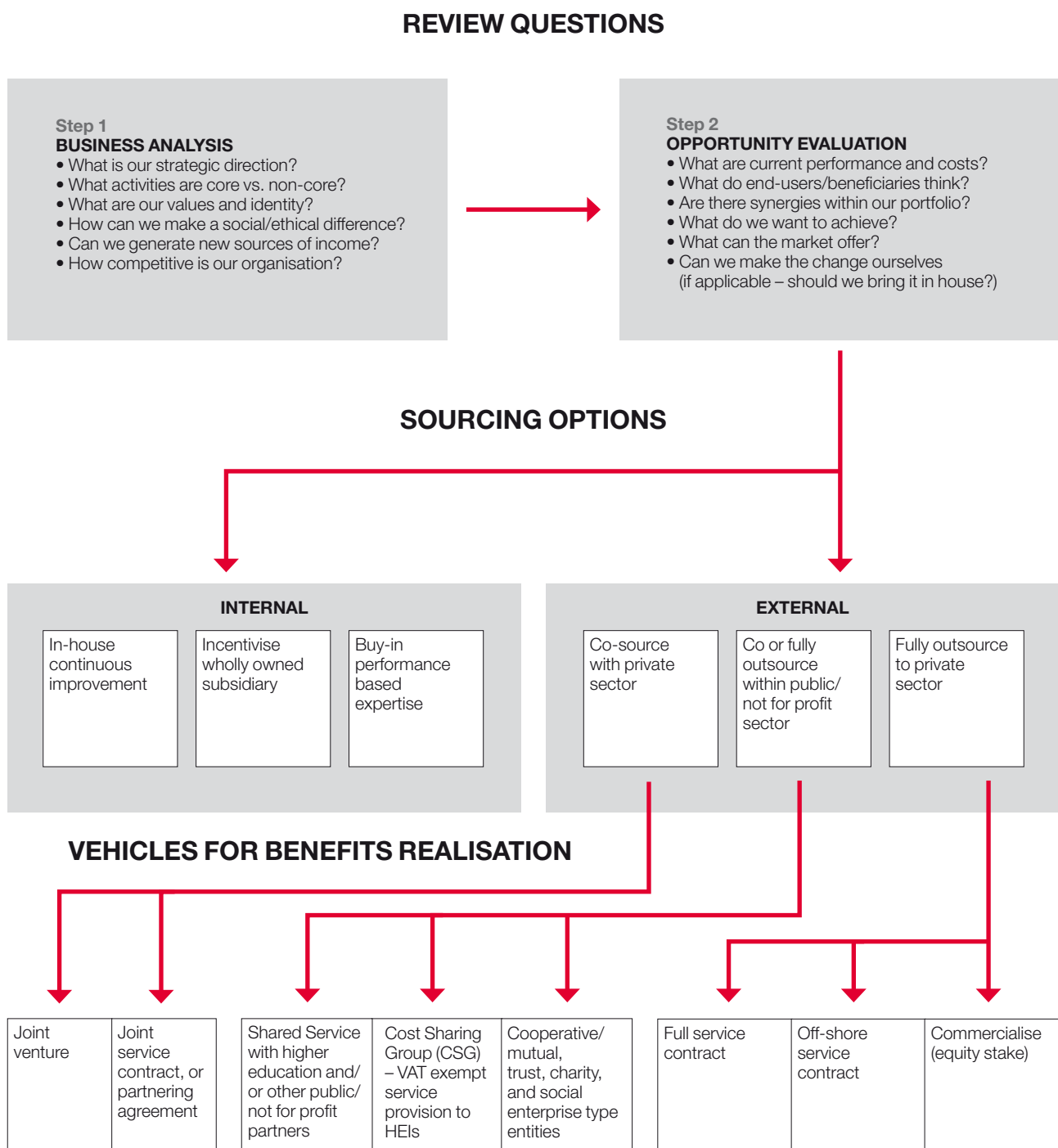


6.3 Step Three – Provider Selection

There are two main tools for Step Three, the Sourcing Decision Tree and Portfolio Decision Matrix.

The **Sourcing Decision-Tree**, illustrated in Figure 21 has been developed using UK government guidance, legal expertise, consultants, and the experience of senior HEI managers. It incorporates critical early stage review questions based on Life Cycle Steps 1 and 2, which are important to consider before moving on to explore the range of sourcing options available to HEI decision-makers.

Figure 21 – Sourcing Decision Tree



Sourcing decisions are divided into two main branches; ‘internal’ options and ‘external’ options. The external options are further divided into the outsourcing of either products and services. Figure 6 provides examples of both types.

Recent cases of internal options include KUSCO (Kingston University Service Company Ltd), University of Essex campus services, and Queen Mary University of London domestic services.

Within the branch of external service options, HEIs can co-source or fully outsource to either the private sector or the public/not-for-profit sector.

Within all of these routes, there are a variety of commercial vehicles each with their own benefits and disadvantages (e.g. changes to staff T&C’s, access to capital, economies of scale, etc.). At this stage, HEIs must be clear about their requirements before working with potential service providers to establish an appropriate vehicle for the relationship. Decision-makers must carefully determine the optimal type of relationship and extent of control needed for the activity under consideration.

Recent cases of ‘co-sourcing with the private sector’ include partnerships with organisations such as Uliving, Unite Group, UPP (accommodation), INTO, Kaplan (international study centres), Tribal (student placement management), and GlaxoSmithKline (medical imaging). Fully outsourcing to the private sector includes arrangements with Capita (IT and transformation), MITIE (facilities management), and UNIT4 (management information systems).

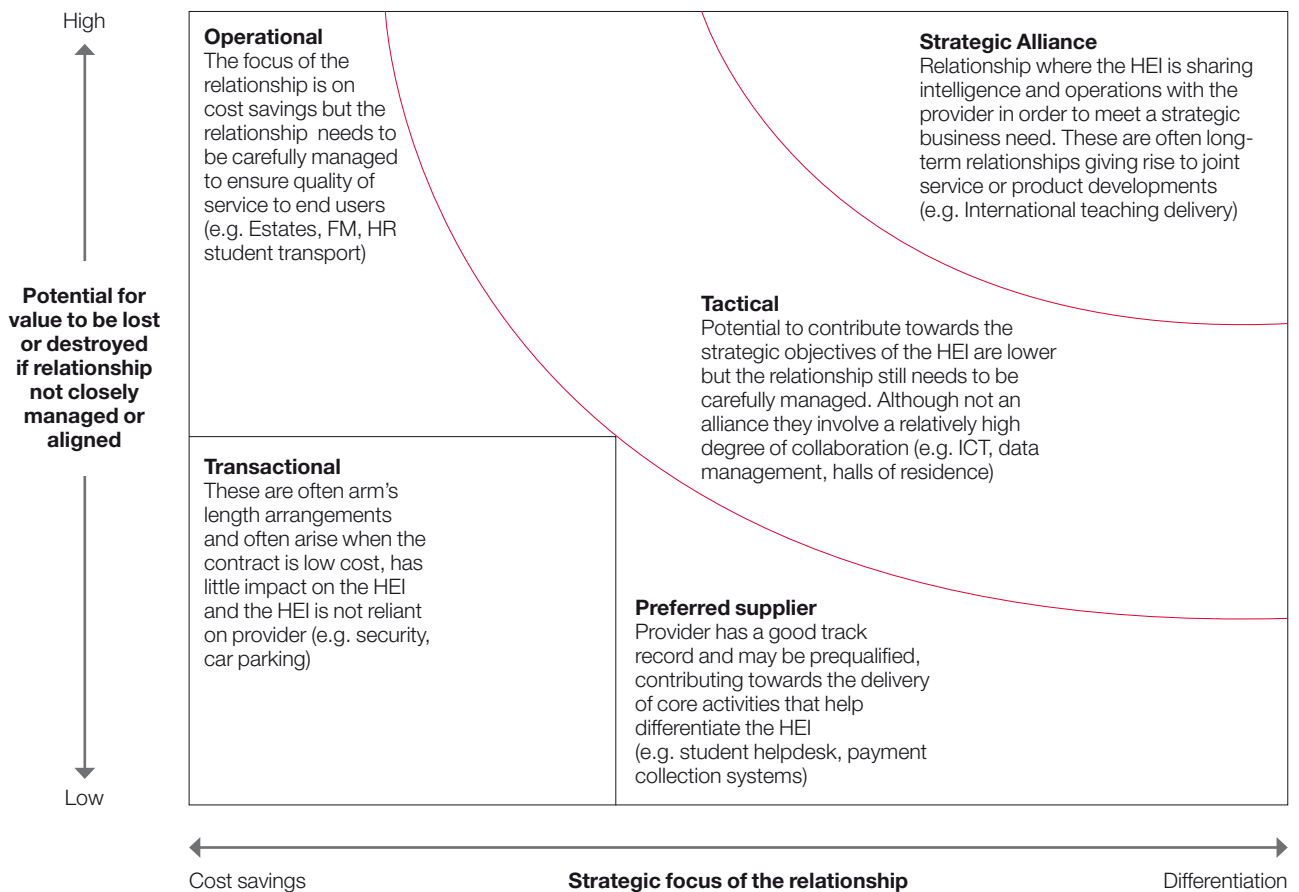
Recent cases of ‘co or fully outsource within public/not for profit sector’ include The Hive – University of Worcester and Worcester City Council (libraries), University of Northampton’s Facilities Management social enterprise, Cambridge-MIT Institute (CMI) (strategic alliance – innovation/spin outs), Falmouth-Exeter Universities – FX Plus (support services), Unitemps (temporary staff recruitment) and The Careers Group – University of London (student employability).

Following the internal analysis conducted in Steps One and Two, there are some important questions that follow:

- Do we understand the market as it currently stands?
- Is there an external supplier capable and willing to run this service? (If so, can they do it better than us?)
- How would a change in provider impact on our brand, end users, staff, systems, processes and other dependencies?
- Can an internal transformed operation provide a competitive option versus the market?

The **Sourcing Decision Tree** tool can assist with exploring the range of options open to HEIs. Following a decision to pursue external options, the **Portfolio Decision Matrix (PDM)** in Figure 22 is designed to support HEI managers with determining the type of relationship required and extent of control needed over the service provider.

Figure 22 – Portfolio Decision Matrix



The PDM in Figure 22 is based on the Ashridge model and has two major axes, which can be used to position HEI services. Along the horizontal axis the 'strategic focus of the buyer-supplier relationship' exists as a continuum ranging from an orientation on cost savings versus competitive differentiation. The vertical axis represents the level of risk to the HEI where there is 'potential value to be lost or destroyed if relationship not closely managed or aligned'.

In terms of how suppliers contribute to achieving 'differentiation', there may be differences between HEIs depending on the relative importance of the activity. Similarly, the attractiveness of competing in different positions may have a bearing on supplier behaviour and innovation. This tool should be revisited if the HEI strategy changes significantly.

There are five positions plotted in the PDM visual, these include:

- **Transactional** (low impact to HEI, cost savings focus)
- **Operational** (high impact to HEI, cost savings focus)
- **Preferred Supplier** (low impact to HEI, differentiation focus)
- **Tactical** (medium impact to HEI, differentiation focus)
- **Strategic Alliance** (high impact to HEI, differentiation focus)

6.4 Step Four – Implementation

Table 3 presents critical guidance to be observed before, during and after implementation.

Table 3 – Successful transition planning for HEIs

Before implementation	During implementation	After implementation
<p>Collect and analyse the views of HEI stakeholders</p> <p>Review earlier market and spend analysis for changes</p> <p>Scrutinize your requirements and draft contract. Buy-in external expertise if needed before proceeding</p> <p>Have an accurate picture of your service assets and resources</p> <p>Understand the product and service architectures</p> <p>Understand the SLAs and incentives, and make sure they are commercially focused</p> <p>Have copies of your 3rd party contracts and understand their strengths and weaknesses</p> <p>Know the current cost of service provision</p> <p>Understand and where possible share the risks and responsibilities</p> <p>Research and understand the market, how much more or less it will cost and how much better the service will be</p> <p>Identify your “experts” and use them – and keep them</p> <p>Know unambiguously what your problems are and either fix them or know how to. Also understand the costs and time involved</p> <p>Consider views of HEI vs. provider branding</p>	<p>Maintain the knowledge and understanding of the team that negotiated your contract – and their rationale</p> <p>Continue to gather and maintain knowledge about the service in-transition</p> <p>Understand and monitor your technology and service roadmaps and make sure your new provider understands them too</p> <p>Map the data and process flows between your institution (including any international operations) and external systems</p> <p>Benchmark the service cost and performance and know the gaps between your experience and that of others</p> <p>Communicate to staff on both sides how the operation will continue to contribute to the HEI strategy</p> <p>Use new information during implementation to update projected whole-life cost models and review with supplier</p> <p>Encourage and support the provider to develop useful transparent metrics and data on the health of the operation</p>	<p>Understand your contracts – and the suppliers contracts and how your suppliers are behaving</p> <p>Understand any lock-in or balloon payments to suppliers, including lower tier suppliers</p> <p>Identify your key people and who holds the knowledge and experience of how your services are configured and how the systems fit together</p> <p>Review the documentation on ICT assets that have been handed over to the service provider</p> <p>Monitor outputs as well as feedback and trends from HEI staff and students</p> <p>Seek external verification of benefits realisation where appropriate</p> <p>Continuously assess performance and re-assessment of risk within the contract</p> <p>Handle stakeholder complaints</p> <p>Chair any agreed supplier/buyer contract review meetings</p> <p>Make sure you have put in place an effective exit plan – and have tested it (agree it before you sign the contract)</p>

6.5 Step Five – Relationship and Performance Evaluation

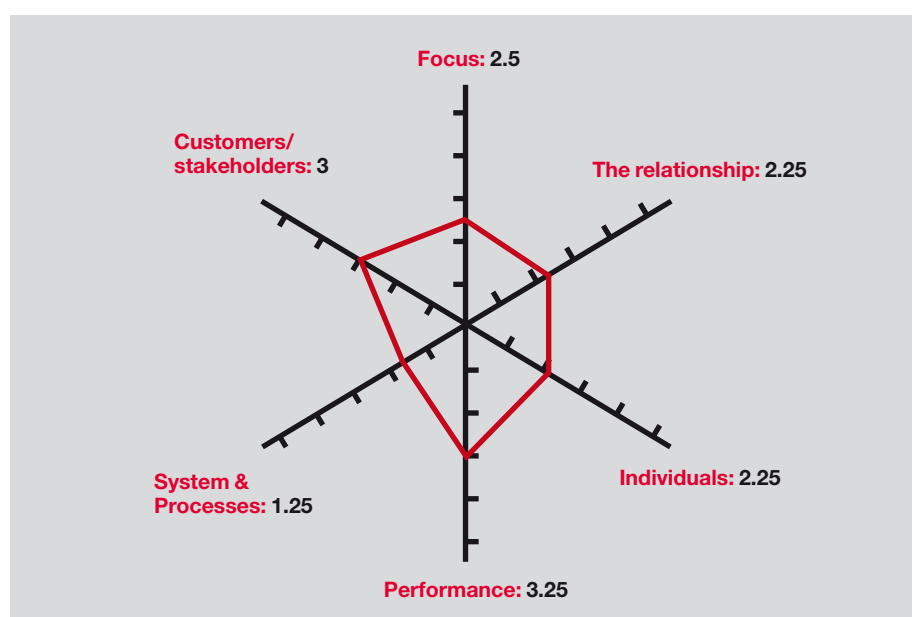
The Collaborative Sourcing Maturity Audit (CoSMA) is a free and quick electronic tool that describes and measures the high-level performance of collaboration between buyer and supplier teams where service contracts are in place. The audit is divided into five levels of maturity, where performance at one end is (1) ‘beginning’ and at the other (5) ‘excelling’.

The audit has been designed for HE managers involved in carrying out periodic assessments of the health of medium to large service contracts (e.g. outsourced ICT), where collaboration is instrumental for delivering benefits. In terms of the audit method, there are 24 statements over 4 pages, which cover a range of behaviours, systems and processes. For each statement the user must click on the number that best reflects the level of collaborative team performance.

The audit should be carried out in a small group with representatives from suppliers, buyers and users to provide a range of views, accurate scoring of the as-is, and a joint-plan for addressing performance gaps. At the end of the scoring process the user will be provided with scores and graph that highlights low performance and areas for further action, as illustrated in Figure 23.

Figure 23 – Collaborative Sourcing Maturity Audit – Example results

Focus		The relationship		Individuals		Performance		Systems & processes		Customers/ stakeholders	
Q no.	Score	Q no.	Score	Q no.	Score	Q no.	Score	Q no.	Score	Q no.	Score
1	3	2	2	3	3	4	3	5	1	6	2
7	2	8	2	9	3	10	5	11	1	12	3
13	3	14	1	15	2	16	3	17	2	18	4
19	2	20	4	21	1	22	2	23	3	24	3
Average score for Focus		Average score for The relationship		Average score for Individuals		Average score for Performance		Average score for Systems & processes		Average score for Customers/ stakeholders	
2.5		2.25		2.25		3.25		1.75		3	



As is the case with all the tools featured in the report, the Collaborative Sourcing Maturity Audit can be launched from the Efficiency Exchange website. At the end of the audit, there is an option to print the results table and graph (see Figure 23).

6.6 Intelligent Customer Function (ICF) – Capability Audit

Higher Education Institutions (HEIs) should organically develop their own Intelligent Customer Function (ICF) to successfully manage the process of strategic sourcing. The capability audit provides an assessment of the maturity of current ICF capabilities (policy, skills, systems and processes) within the HEI. Users of the audit should identify evidence of gaps between current and expected capability in each of the following areas:

- Vision
- Leadership & talent management
- Tool-box
- Decision-support
- Operational delivery
- Governance & communications

⁶"We recommend academic staff within the HEI's business school, or trusted external procurement consultants

Within the aforementioned six categories, there are a total of 28 areas to audit, as illustrated in Figure 24. For each area, users must state whether the current capability is at position (1) Ad-hoc, (2) Defined, (3) Managed, or (4) Optimised. Where possible a third party⁶ should be employed to carry out an annual audit of the procurement function and others involved strategic sourcing. Depending on the aims and resources available to the HEI, the completed audit should be used to inform a business case for further strengthening ICF capabilities. The potential risk and costs of not investing in ICF capabilities should also be fully understood.

Figure 24 – Intelligent Customer Function – Capability Audit

Leadership & talent management

DIRECTION

A strong leadership team which creates a sense of direction by developing effective sourcing strategies and monitor their implementation

COMMUNICATION

Leaders responsible for and involved in strategic sourcing communicate effectively with the procurement team and report progress and benefits to the wider organisation

EMPOWERMENT

Staff are valued, respected and trusted to make responsible strategic sourcing decisions. Opportunities exist to address own change leadership development needs

RAISING THE PROFILE

The team actively engages with HEI leaders and we are recognised for adding value to the change process. Staff also provide confidence through analytics and examples of past excellence

ENVIRONMENT

The team understands the commercial aspects of their operating environment (HE sector, local, national) and maintain an awareness of changes that can affect strategic sourcing decisions

KNOWLEDGE MANAGEMENT

Knowledge of important outsourced operations is maintained. Operational learning is actively shared across boundaries (e.g. HEI staff complete rotations with suppliers, co-location, etc.)

PERFORMANCE

There is a performance management system in place that is clearly aligned to institutional and team objectives. This supports development plans, as well as measures and rewards performance

Decision support

FORECASTING

Demand and expenditure is competently forecasted and regularly reviewed. Changes are modelled to understand the impact on the existing pipeline

RESOURCE MANAGEMENT

The procurement budget and capability is managed effectively and efficiently to deliver value to the institution. Colleagues are interested in the team's examples of good practice in resource management

QUALITY MANAGEMENT

Overall quality assurance control is retained throughout the ICF. Supply processes and contracts are actively reviewed to ensure they meet the agreed standards and institutional expectations

METRICS AND INCENTIVES

Metrics are aligned with institutional objectives and are used effectively to change behaviours. Suppliers are supported to succeed using incentive mechanisms (awards for reaching targets)

BENCHMARKING

There is regular benchmarking of internal performance against HE sector peers (and if applicable other shared mission group HEIs), and the team investigates and acts on the findings

COMPETITION AND INNOVATION

When exploring potential solutions, competition and exploration of different business models is expected. If applicable, suppliers are also encouraged to compete/innovate lower tier supply

Vision

ALIGNMENT

Strong linkage between internal sourcing practices and the long term goals, strategy and the core business of the institution

BLUEPRINT

Clear unambiguous documented and shared blueprint for the future of the procurement function, and a living updated roadmap

Tool-box**INTEGRATED SOURCING FRAMEWORK**

A single standard, defined, end-to-end process that is integrated, transparent, documented and embedded – informed by best practice and highly valued by procurement staff

INTERNAL PROCESSES

Processes ensure the smooth flow of data about demand, current projects and resources. Real time visibility of information supports intelligent decisions and understanding of trends

EXTERNAL PROCESSES

Processes provide clarity for suppliers at all stages of the sourcing life-cycle. Post contract award, structured support is provided to suppliers to improve their ability to deliver quality services and demonstrate their commitment to HEI values (e.g. social responsibility)

Operational delivery**PARTNERING**

The team and institution operates as a trusted ethical partner to all types of service provider. A professional boundary is maintained between the client and close partners

INTER-ORGANISATIONAL RELATIONSHIPS

Buyer, supplier and end-user views are all represented, and cooperation between parties contributes to operational performance

PROGRAMME MANAGEMENT

Ownership for risk and realisation of benefits is maintained and outputs from suppliers are actively monitored to ensure they meet the institution's requirements

ACCOUNTABILITY

Staff have the confidence and the competence to fairly enforce contracts with suppliers. Efforts are also made to actively prevent unavoidable requirements changes from the business case

TRANSPARENCY

Behaviour is influenced through visibility of the costs involved in service delivery

QUANTITATIVE ANALYSIS

Procurement staff are confident and able to scrutinize quantitative data from potential and current suppliers – and are able to make sound conclusions from their analysis

Governance**POLICY**

Strong governance structure comprising streamlined decision making bodies are in place to set direction, monitor progress, and provide oversight. Approvals and escalation paths are formalised

STAKEHOLDER MANAGEMENT

Strategy is in place to manage stakeholder expectations (students, staff, others) and facilitate the changes in behaviours needed to realise benefits

COMMISSIONING

The HEI maintains responsibility for ensuring an integrated and coordinated sourcing strategy, which focuses on the right outcomes at the right cost

CONTINUOUS IMPROVEMENT

The team takes responsibility for updating and enhancing the ICF, ensuring the institution has the ability to respond to future strategic sourcing challenges and realise our goals

6.7 Toolkit Sources

A variety of sources were used and adapted for use in the HEI environment. We would like to give special thanks to Graham Pascoe of Deliver Ventures (www.deliverventureslimited.co.uk) and the International Association of Outsourcing Professionals (IAOP), and also Jim Reed, Director of Procurement, University of Nottingham, for kindly providing permission for us to use and adapt their materials for this research. Other sources of data used for the development of the Strategic Sourcing Toolkit include:

- Cabinet Office
- Office Government Commerce (OGC) – online legacy materials
- CIPS (2013) Position on Practice: Contract Management, Chartered Institute for Purchasing and Supply
- Advice from representatives of the National Outsourcing Association (NOA)
- Advice from the Higher Education Purchasing Consortiums
- Examples of commissioning life cycles
- Interviews with higher education sector managers
- Interviews with private and public sector organisations
- Interviews with consulting experts and legal experts
- Strategic sourcing in HEIs survey data

7. Recommendations

The project findings confirm that HEIs are at an early stage of maturity in terms of working with external service providers, yet have identified the potential for a variety of sourcing models to deliver efficiency, effectiveness and economic benefits. At present, many HEI procurement functions lack the skills and confidence to deal with large scale sourcing activities. Fortunately, strategic sourcing does not necessarily need to be pursued in this way – there are a variety of innovative models that HEIs can employ as either an alternative to, or as a first step towards outsourcing that can realise efficiency, effectiveness and economic benefits. There is potential for shared services, but the autonomous nature of HEIs and their differences in strategic goals currently prevent progress in this area.

Academic delivery and revenue generation were not commonly identified as benefits sought from outsourcing. HEIs should prioritise these benefits to assist in offsetting the reduction in central government funding and improve their ability to differentiate themselves both nationally and internationally. Where there is potential for growth, collaborative sourcing models such as joint ventures may present new strategic options and help improve HEI competitiveness.

If HEIs are to become the intelligent customers of the future there is need:

- To assess existing capabilities across HEIs to understand what skills need to be developed
- To deliver training and support across all levels, including non-procurement staff
- To develop a new HEI shared service entity or make use of an existing expert HE body to deliver strategic sourcing consultancy and implementation services to HEIs

Some HEIs are now recruiting experienced procurement professionals from the private sector however the sector needs to **invest in skills, training and capability** to develop robust business cases and strengthen contract management. The research has also uncovered a need for **strong programme management** from the centre to ensure that procurement is aligned to strategic objectives and that expected benefits are realised. To succeed, strategic sourcing decisions need to be linked to the institution's mission, identity and future competitive challenges. The qualitative benefits of any sourcing arrangement must be considered – the focus should not be based simply on cost; end-customer satisfaction must be on the agenda.

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Appendix A**Interview method**

Research interviews had two parts. The first half consisted of more general questions about strategic sourcing. The second half consisted of more focused questions about specific examples of where strategic sourcing had worked well and where it had not gone so smoothly. From this the research team developed an understanding of both success factors and steps to avoid. The interviews were semi-structured, following a question sequence sent to the interviewees beforehand, which included opportunities to ask follow-up questions and explore certain issues in more detail. In most instances the interviews were recorded and subsequently transcribed for analysis. In situations where it was not possible to record, detailed notes were taken and written-up after the interview.

The interviews focused on:

- The activities considered suitable for outsourcing
- Identification of core business activities
- The barriers to outsourcing
- The use of specific processes and methods or techniques to assess the early stage of potential outsourcing
- The benefits realised
- Criteria for determining the success of outsource criteria
- The contractual relationship between the client organisation and the contractors
- The management of the contract transition period
- Critical success factors

Each interview typically lasted between 45 minutes to an hour. Other data collected included some of the actual contract documents, planning documents and some minutes of relevant meetings.

Interview participants

BPP University	Bristol City Council
Falmouth-Exeter +	Department of Health
Kingston University	iESE
London Metropolitan University	Ministry of Defence
Middlesex University	
University of Cambridge	Airbus
University of Exeter	Boeing
University of London	Capita
University of Northampton	Deliver Ventures
University of Nottingham	Eversheds
University of Roehampton	Everything Everywhere (EE)
University of Surrey	Friends Life
University of the West of England	MITIE
	PricewaterhouseCoopers
	The Parthenon Group
	Tizzard, John – Independent Consultant
	Tribal Education
	UNITE Group

Survey method

The survey had three main components where participants were requested to:

- A. Indicate their agreement with statements related to Strategic Sourcing with responses captured on an ordinal scale. This included:

Seven Questions on Policy and Processes
Eight Questions on Strategy and Environment

- B. Indicate if their institution outsourced to service providers and to provide details, such as:

Number of services outsourced
Type of contractual arrangement
Benefit drivers
Types of benefits

- C. Describe the top 1-3 challenges that the institution will face in the next 10 years in terms of academic service delivery

We only accepted completed responses from participants who provided their names, job title, and institution details.

Research contributors

We would like to thank the various individuals and organisations that also contributed to this study, they provided us with a wealth of valuable inputs that included access to people, data, tools, research and ideas.

Bristol City Council	The Leadership Foundation for
British Universities Finance	Higher Education
Directors Group	Universities and Colleges Employers
London School of Economics	Association
iESE Ltd	University of Bristol
International Association of	University for the Creative Arts
Outsourcing Professionals	University of Exeter
Kings College London	University of Nottingham
National Outsourcing Association	University of Sussex
Southern Universities Purchasing	University of Wolverhampton
Consortium	
Southampton Solent University	

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Robin Hunt, University of Surrey
Helen Baker, UWE
Stephen Batty, UWE
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Appendix B**Survey findings – questions on sector future**

In terms of academic service delivery, what are the top 1-3 challenges your institution will face in the next 10 years?

Figure 25 – All higher education sector results

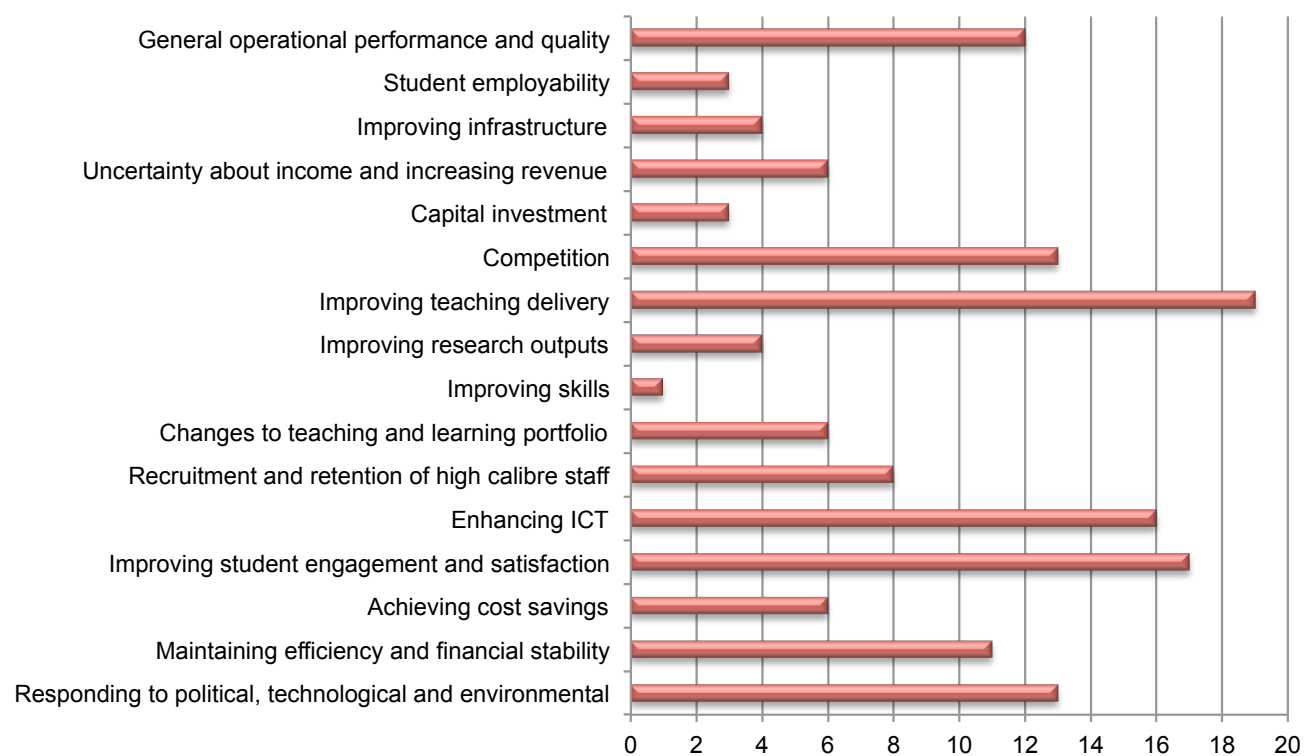


Table 4 – Top Priorities by mission group

Group	Assigned category	Total
Russell Group	Improving student engagement and satisfaction	5
	Recruitment and retention of high calibre staff	5
	Improving teaching delivery	7
UKADIA	Improving student engagement and satisfaction	4
University Alliance	Enhancing ICT	5
	General operational performance and quality	5
Not Aligned	Enhancing ICT	6
	Improving teaching delivery	6
	Competition	6

There were not sufficient responses from the 1994 Group and Million+ for comparison

Biographies

Dr Wendy Phillips

Dr Phillips is an Associate Professor at the Bristol Business School, UWE. Her area of interest is in public procurement, supply chain relationships and the management of innovation. Prior to her current position, Wendy worked at the Centre for Research in Strategic Purchasing and Supply (CRiSPS) at the University of Bath School of Management where she undertook research for a range of public and private sector organisations such as the NHS, Welsh Assembly Government, Rolls Royce, BNFL and TRW. Dr Phillips was a member of the Healthcare Industries Task Force which brought together industry and Government leaders to develop a plan of action to stimulate science and industry in the UK. She has published numerous articles, book chapters and reports, as well as presenting to both academic and practitioner audiences.

Dr Dharm Kapletia

Dr Kapletia is a Senior Research Fellow at the Bristol Business School, UWE. His area of interest is in strategic management, public sector transformation, and management of innovation in complex products and systems environments. He holds a PhD from the Institute for Manufacturing, University of Cambridge and an MSc with Distinction in Technology and Innovation Management from SPRU, University of Sussex. Dr Kapletia continues to work closely with government and industry on various procurement and innovation related projects and programmes. He has worked with organisations such as the Department for Transport, Ministry of Defence, Rolls-Royce, BAE Systems, Novartis, and Hewlett Packard.

