HB 240—2004

# GUIDELINES FOR MANAGING RISK IN OUTSOURCING

## Utilizing the AS/NZS 4360:2004 process



STANDARDS AUSTRALIA

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Standards Australia gratefully acknowledges Dr Nick Seddon of the Australian National University, and Kate Reid and Dr Jenny Stewart of the University of Canberra, for their contributions towards the development of this document.

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This Australian Handbook was prepared by Joint Technical Committee OB-007, Risk Management.

The following interests are represented on the Committee OB-007:

Australian Computer Society
Australian Customs Service
Australia New Zealand Institute of Insurance and Finance
CSIRO (Commonwealth Scientific and Industrial Research Organisation)
Department of Defence (Australia)
Department of Finance and Administration
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Environmental Risk Management Authority (New Zealand)
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Securities Institute of Australia
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ISBN 0 7337 6253 0



Published by Standards Australia International Ltd., GPO Box 5420, Sydney, NSW 2001, Australia

# Preface

The rapid development in the area of Information Technology has provided new opportunities and new risks, brought about changes to industrial processes, and made the marketplace more complex and quick to react to changes. Globalization, deregulation and fierce competition have made organizations even more vulnerable, with the ultimate risk being their elimination from the market.

Product lifecycles and lead-times are ever shorter. Concentration may even lead to a single supplier where before, through regulation, there may have been two. Goods today can be delivered from any place around the world to an organization's doorstep just as quickly as from the local region. Consequently, longstanding relationships become tenuous while customer loyalty quickly diminishes.

In both the public and private sector, the outsourcing of services and non-core business is becoming the norm rather than the exception to the rule. Similarly the private sector ownership and operation of public facilities and services is increasing. With many activities now involving a multitude of participants, each with their own (in many cases conflicting) needs, goals, and internal and external demands, it is not surprising that significant risks abound. The complex nature of many projects adds to these risks.

The application of a robust and disciplined risk management process utilizing AS/NZS 4360:2004 (THE STANDARD), fully integrated into the early outsourcing considerations, should greatly assist the management of any organization in finding that delicate balance.

In terms of accountability, a risk management approach demonstrates that management has:

- considered all of the identified risks in terms of their consequences and likelihood; and
- implemented a risk treatment plan in order to avoid, reduce, transfer or retain adverse risks (or put in place a number of initiatives to take advantage of risk opportunities).

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# Part 1: Introduction

## The Australian and New Zealand outsourcing guidelines—An opportunity and a challenge

These Guidelines present an opportunity to learn about the strategic issues associated with outsourcing and how the process of managing risk can be fully integrated into the process of outsourcing. They also present a challenge to organizations to apply the risk management process as a means of enhancing the effective outcome of an outsourcing program.

The objectives of these Guidelines are to provide:

- a generic framework for managing risks in the outsourcing process; and
- a reference point for Chief Executive Officers, Line Managers and staff when developing processes, systems and techniques for managing risks. The Outsourcing Guidelines are intended to provide only a broad overview of risk management and its integration into the outsourcing process. Organizations are expected to interpret these Guidelines in the context of their own operational environment and to develop their own integrated specific risk management approaches.

### Outcomes

Possible outcomes of an adherence to these Guidelines include:

- a greater exercise of creativity and innovation in management practice;
- a higher standard of customer service;
- a more effective organization;
- access to a wider range of specialist expertise;
- an improved capacity to manage in the face of competing obligations;
- genuine synergy (e.g. running other commercial activities from under-utilized facilities);
- improved organizational morale;
- increased economies of scale—particularly in capital intensive areas (e.g. shared depots);
- increased flexibility—a broader base;