

# TRIPARTITE ADVISORY ON BEST SOURCING PRACTICES



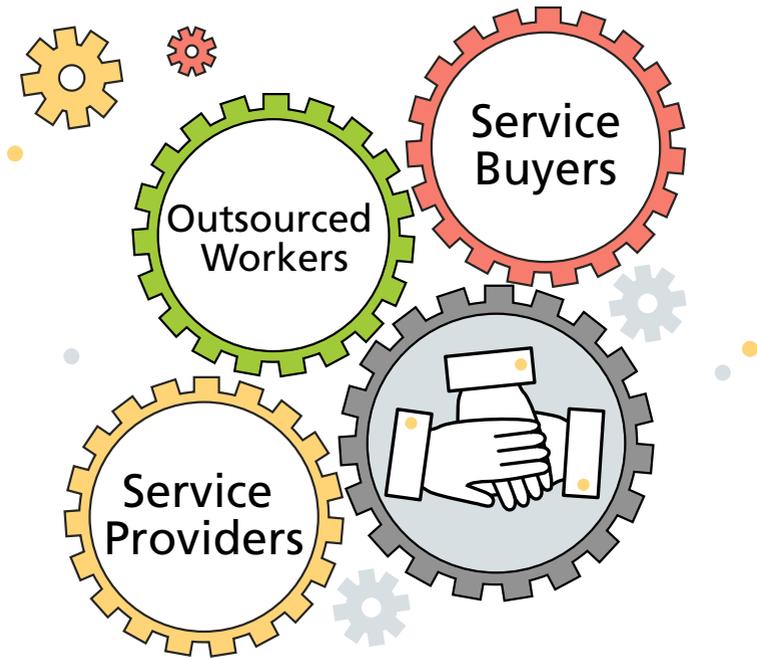
## **DISCLAIMER**

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# INTRODUCTION

**B**est sourcing entails awarding service contracts for outsourced functions based on factors that go beyond just price. This is in contrast to cheap sourcing where contracts are awarded to service providers solely on the basis of the lowest price. When service buyers emphasise service quality and outcomes rather than headcount in their contract terms, service providers are encouraged to improve productivity in the delivery of their services. Workers benefit through better employment terms and conditions which will in turn make outsourced jobs more attractive. Service buyers and consumers also potentially stand to benefit from services that are of higher quality, and delivered in a more efficient manner by a more motivated workforce.

To help service buyers outsource their services in a responsible manner, tripartite advisories on best sourcing were issued in 2008 and 2012 by the Tripartite Committee for Low-Wage Workers and Inclusive Growth (“TriCom”, previously known as the Tripartite Committee on CPF and Work-related Benefits for Low-Wage Workers).

Since 2012, the Progressive Wage Models (PWMs) for the cleaning, security and landscape sectors have been implemented via Government levers to raise the standards of these sectors, and provide a clear pathway for workers’ wages to progress with training and improvements in productivity and standards. The PWM has also created a new, more level playing field for service providers to compete less on wage costs and more on quality services and productivity of workers. Service buyers in turn benefit from better service delivery.

However, the TriCom recognises that there is still room to improve the productivity and employment conditions of workers in outsourced service sectors, especially those earning lower wages. It further notes that the adoption of progressive procurement and contracting practices by service buyers plays a key role in supporting Singapore’s transformation towards a more innovative, productive and inclusive economy and society.

Taking into account recent developments and feedback from tripartite partners, the TriCom has updated the Tripartite Advisory on Best Sourcing Practices to provide more guidance to service buyers on progressive remunerations for workers, outcome-based contracting and fair contracting practices.



# BEST SOURCING PRACTICES

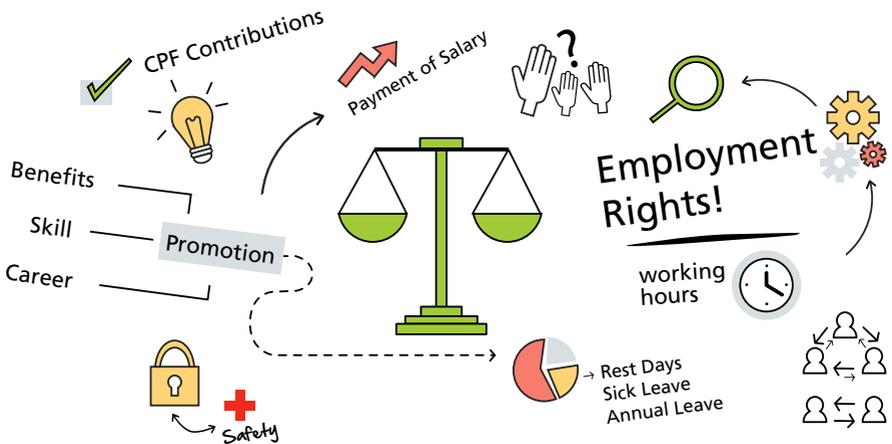
Service buyers are strongly encouraged to adopt the following practices when they outsource their services:

## A. SAFEGUARD THE BASIC EMPLOYMENT RIGHTS OF WORKERS

Workers whose basic employment rights are taken care of by their employers will be more engaged and motivated to perform well. Employment should be voluntarily entered into without coercion or threat of penalty of any kind. Service buyers should

include in their service contracts a requirement for their service providers to comply with Singapore’s employment laws, such as the Employment Act, Central Provident Fund Act, Employment of Foreign Manpower Act, Workplace Safety and Health Act, Work Injury Compensation Act, Industrial Relations Act, Child Development Co-Savings Act, and Retirement and Re-employment Act. Service buyers are strongly encouraged to take into account a service provider’s track record in complying with the employment laws before awarding a service contract to a service provider. The Ministry of Manpower (MOM) website displays lists of companies that have breached employment laws before.

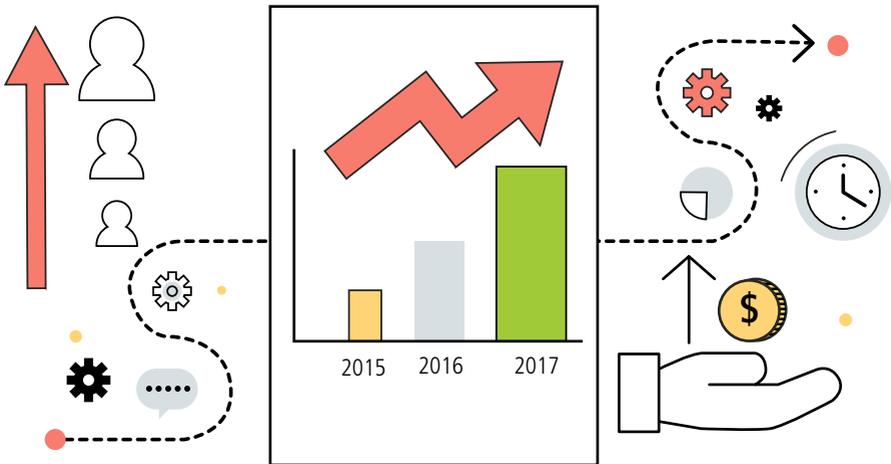
Service buyers may also choose to make provisions to terminate or not renew service contracts if it was found that the service providers had breached employment laws. Service buyers are advised to refer any employment-related offences detected to MOM or Central Provident Fund Board (CPFB).



# B. ENSURE PROGRESSIVE REMUNERATIONS AND BENEFITS FOR WORKERS

Service buyers are strongly encouraged to include in their service contracts requirements for:

- (i) Service providers to give annual increments and annual wage supplements by taking reference from the wage recommendations of the National Wages Council in past years, as well as the recommendations of the PWMs for the cleaning, security and landscape sectors; and
- (ii) New service providers to offer no worse-off remuneration packages to and recognise the lengths of service of incumbent workers whom they intend to employ under new contracts.



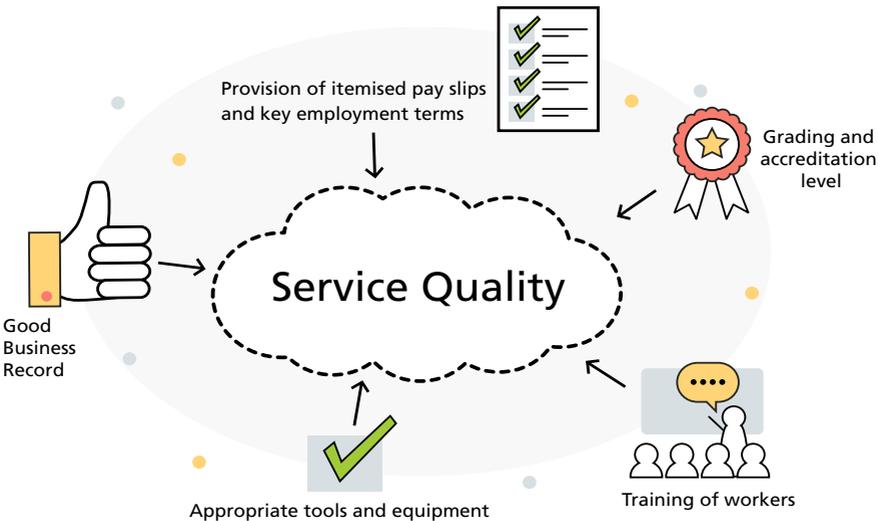
## C. IMPLEMENT OUTCOME-BASED CONTRACTING BY SPECIFYING SERVICE-LEVEL REQUIREMENTS RATHER THAN HEADCOUNT

Service providers will have little room to differentiate themselves and improve the quality of service provided if service requirements are specified solely on the basis of the number of workers provided by the service provider. To allow service providers the flexibility to propose more productive and efficient work methods and manpower deployment plans, service buyers should specify their requirements in terms of expected performance levels. They are also strongly encouraged to involve service providers in conducting a needs assessment and identifying areas for better utilisation of resources by using sensors, analytics and optimisation. In addition, service buyers could go one step further to engage other service buyers in the proximity to evaluate possible scope for cluster- or precinct-level sharing of service provider resources.

Service buyers should evaluate service providers based on their performance in delivering specified outcomes, and they are strongly encouraged to use various types of technology mechanisms to do so, such as sensors, drones, dashboards and central database platforms to monitor the performance of the service providers. Service buyers can also consider investing in new technology for service providers to adopt. Such arrangements would make service providers more productive and better equipped to deliver specified outcomes.

# D. RECOGNISE FACTORS THAT CONTRIBUTE TO SERVICE QUALITY

Service buyers should consider adopting the Price-Quality Method (PQM) range of 50-50 to 30-70 to place emphasis on quality factors in the evaluation criteria. Service buyers are also strongly encouraged to adopt a two-envelope system so as to evaluate price and technical proposals of tender bids separately. Apart from the bid price, service buyers are strongly encouraged to consider the following factors that improve the quality of service provided and should be included in the technical proposals put forth by service providers, before they award a service contract to a service provider.



## (i) Good Business Record

Service buyers are strongly encouraged to check that service providers have good business records before awarding a service contract to them. There are various factors that contribute to a good business record. For instance, service providers with good financial standing and reputation as well as experience in other similar projects are better able to provide reliable and good services and are less likely to default on salary payments to their workers. This extra precaution avoids downstream problems, including service disruption.

## (ii) Itemised pay slips and key employment terms to workers

Service buyers should ensure that service providers comply with the legal requirement under the Employment Act to issue itemised pay slips and key employment terms to their workers. Such documents enable both the workers and the service providers to have a clear understanding of their respective employment terms and obligations and prevent employment disputes. These documents also facilitate dispute settlement and minimise the possibility of any service disruption.



### **(iii) Grading and accreditation level**

Service buyers should consider if the service providers are accredited or graded highly for the service to be rendered. For example, service buyers could take into account the grade of security agencies under the grading framework of the Singapore Police Force's Police Licensing and Regulatory Department (PLRD), the accreditation attained by cleaning companies under the National Environment Agency's (NEA) Enhanced Clean Mark Accreditation Scheme, or the list of landscape companies on the National Parks Board's (NParks) Landscape Company Register.

### **(iv) Training of workers**

As service providers who invest in the training of workers would be more likely to provide better quality and more efficient services, buyers of such services are strongly encouraged to award their contracts to service providers whose workers are properly trained and/or have attained the relevant skills certifications.

### **(vi) Appropriate tools and equipment**

To help workers perform the job well, service buyers should ensure that service providers supply their workers with the appropriate tools and equipment to perform the services.

# E. PROVIDE DECENT WORK ENVIRONMENT FOR WORKERS

Under the Workplace Safety and Health Act, service buyers are required to take appropriate measures to ensure the safety and health of any workers employed by their service providers. Where living arrangements are offered by service providers for their workers, service buyers should ascertain that such arrangements are habitable, clean and safe.

In addition to meeting the basic workplace safety and health standards, service buyers are strongly encouraged to provide workers with appropriate amenities at the deployment sites, such as washroom facilities, rest areas and first aid kits. Workers will be able to perform their work well and provide better services in a conducive environment.



## F. SEEK TO ESTABLISH A LONG-TERM COLLABORATIVE PARTNERSHIP WITH SERVICE PROVIDER

Service buyers can consider structuring longer term contracts, with options to extend, where appropriate. It is mutually beneficial for both service buyers and providers to establish a long-term collaborative partnership, if the service providers are consistently able to meet expected performance standards. Longer term contracts can encourage service providers to invest in technology and training to enhance the productivity of their workers and the quality of service provided. Service buyers will also benefit from the retention of experienced workers who are familiar with the job requirements and working environment.



# G. BUILD A FAIR CONTRACTING PARTNERSHIP WITH SERVICE PROVIDERS

Service buyers should conduct procurement in a fair and reasonable manner. A fair contracting partnership will allow service providers to better manage costs and manpower to fulfil service requirements. Service buyers will also benefit from services of consistent standards without disruption. Service buyers are encouraged to adopt the following practices:



## **(i) Allow for Reasonable Changes to Bid Prices within Offer Validity Period**

Service buyers should allow service providers to vary their bid prices within the offer validity period, if the latter are able to provide justifications on the basis of unforeseeable circumstances (e.g. force majeure events) that could lead to higher operating costs for service providers during the contract term. This will ensure that the contract prices are reasonably sized to adequately cover the relevant costs, so that service providers can in turn pay their workers fairly.

## **(ii) Prompt Payments**

It is important for service buyers to pay their service providers promptly, so that their service providers can in turn pay their workers on time and ensure performance of services without disruption.

## **(iii) Appropriate Remuneration For Provision of Services Outside Normal Scope of Contracts**

Service buyers are strongly encouraged to pay their service providers based on a schedule of rates for ad hoc services requested outside the normal scope of service contracts, which can be included in tender specifications. This will in turn allow the service providers to remunerate their workers accordingly for performing the additional work.

## (iv) Incentives for Better-Than-Expected Performance

Service buyers are also strongly encouraged to incentivise their service providers to perform above expectations through incentive payments, and encourage their service providers to share the incentive payments with workers. This will help motivate workers to perform well and provide better services.



## (v) Reasonable Liquidated Damages

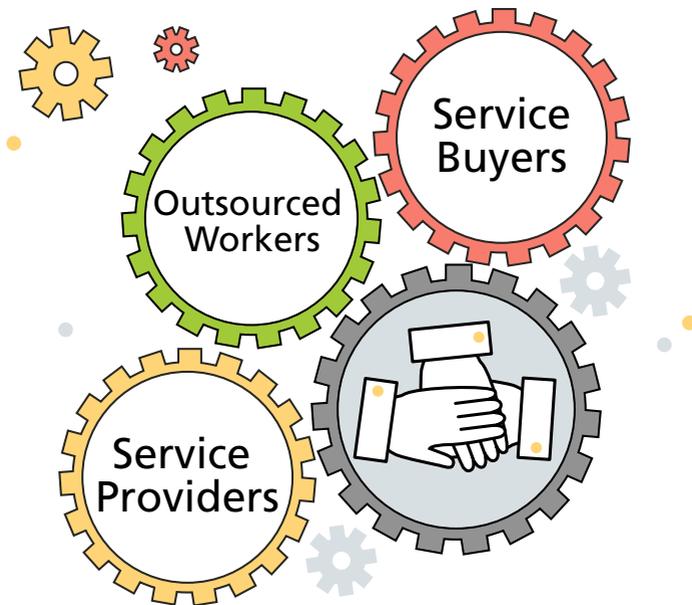
Service buyers should be mindful that liquidated damages may affect the financial positions of their service providers and their ability to pay the workers. Liquidated damages should be commensurate with actual losses incurred when service providers fail to fulfil their contractual obligations, and cannot be punitive in nature. Service buyers are strongly encouraged to allow service providers to make representations, before imposing liquidated damages. If liquidated damages are to be imposed, service buyers should clearly and precisely document relevant performance problems that have occurred in order to assess their impact and calculate the costs.

## **(vi) Reasonable Arrangements for Extending or Terminating Contracts**

Service buyers are recommended to give advance notice of at least three months in writing to service providers for extending or terminating contracts. This will provide sufficient time for service buyers and providers to prepare for extended contracts, or address issues associated with termination of contracts such as re-deployment/resettlement of workers. Service buyers are encouraged to make known reasons for termination of contracts, so that service providers can learn from the experience and improve their service standards.

# CONCLUSION

Service buyers are strongly encouraged to adopt the best sourcing practices recommended in this Advisory. Through best sourcing, service buyers will not only help to improve the terms and conditions of the workers employed by service providers, but will also achieve better service and value for money for themselves. In addition to the Advisory, service buyers can also refer to the “Best Sourcing – Step-by-Step Guidebook for Service Buyers” available on the MOM website, for details on how to implement best sourcing practices (e.g. sample employment contracts and performance requirements for service contracts, information on accreditation and grading systems).



*(<http://www.mom.gov.sg/employment-practices/good-work-practices/best-sourcing-practices>)*



A collaboration between the Ministry of Manpower, Singapore National Employers Federation and the National Trades Union Congress. Endorsed and sponsored by the Tripartite Committee for Low-Wage Workers and Inclusive Growth.

All queries and feedback on the publication are welcome through the Ministry of Manpower's online feedback service.